

PERFORMANCE AUDIT REPORT

of the

North Dakota Veterans' Home

June 24, 2002

Report No. 3019

June 24, 2002

Honorable John Hoeven, Governor

Members of the North Dakota Legislative Assembly

Transmitted herewith is the performance audit report on aspects of the North Dakota Veterans' Home. This report contains the results of our study of the Veterans' Home, along with the results of a review performed by an independent consulting firm. This audit contained a review of the effectiveness of the management and administrative structure; the procedures used in obtaining, accounting for, and utilizing financial resources; the reasonableness of staffing levels; and the level of care provided.

The audit was conducted pursuant to Chapter 32 of the 2001 Session Laws. We conducted this audit under the authority of Chapter 54-10 of the North Dakota Century Code. Included in the report are the goals and scope, findings and recommendations, conclusions, and the responses from the Veterans' Home and the Administrative Committee on Veterans' Affairs.

Sincerely,

Robert R. Peterson
State Auditor

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Executive Summary

Purpose and Authority of the Audit

The performance audit of the North Dakota Veterans' Home was conducted pursuant to Chapter 32 of the 2001 Session Laws. Section 2 of this chapter required a performance audit be conducted during the 2001-2003 biennium and the results are to be presented to the appropriations committees during the Veterans' Home's budget presentation during the 58th Legislative Assembly. The purpose of this report is to provide our analysis, findings, and recommendations regarding our limited review of the Veterans' Home.

Background Information

The Constitution of North Dakota establishes the requirement for a Veterans' Home to be located in Lisbon, North Dakota. The Veterans' Home has been in operation since 1893 and has undergone changes since that time with new buildings, remodeling, and changes in the level of care provided to residents. In 1991, the Veterans' Home expanded the level of care provided to residents with the addition of a Skilled Care unit. The Veterans' Home is licensed for 111 Basic Care beds and is licensed for 38 Skilled Care beds. The Administrative Committee on Veterans' Affairs, a 15-member board appointed by the Governor, is responsible for the supervision and government of the Veterans' Home.

Results and Findings

We reviewed management controls, applicable state and federal laws, and the administrative structure of the Veterans' Home. We also reviewed the processes and procedures related to how financial resources are obtained, maintained, and used by the Veterans' Home. An independent consultant also performed a review of the staffing levels and level of care provided by the Veterans' Home as well as a review of the management and administrative structure. All recommendations are listed in Appendix A. Discussions relating to individual recommendations are included in Chapters 2 through 4 of this report.

Management and Administrative Structure

Through review of information and tests performed, significant improvements and changes are required to increase the effectiveness of the management of the Veterans' Home. The current Commandant (administrator of the Veterans' Home) has not been adequately monitored and as a result, the Commandant has not been held accountable for resources being used inefficiently and ineffectively, noncompliance with significant state and federal laws, and inappropriate actions taken. The Administrative Committee on Veterans' Affairs, the committee responsible for supervision and government of the Veterans' Home, requires significant changes in the committee size, membership, structure, and operations in order to make improvements with the supervision and administration of the Veterans' Home.

The Veterans' Home should establish a strategic plan which will identify a long range plan and provide for measuring the productivity and operations of the Home. The accounting, budgeting, and financial functions need to be restructured and management needs to ensure

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classified positions at the Veterans' Home are held by individuals who at least meet the minimum qualifications of the position. In addition, the Veterans' Home should make improvements in the processes used to prepare and monitor its budget, as well as complying with legislative intent identified during the budget process.

The Veterans' Home should comply with the North Dakota Century Code (NDCC) priority listing for admission to the Veterans' Home and ensure past residents pay balances owed the Veterans' Home prior to readmission. The North Dakota Administrative Code rules established for the Veterans' Home are outdated and require change. Also, the Veterans' Home should have the personnel officer involved in the hiring and performance review processes to enhance compliance with requirements in these areas.

Financial Resources

Through review of information and tests performed, improvements can be made to increase the Veterans' Home revenues and to use their resources in a more efficient and effective manner. The Veterans' Home is inappropriately spending their general fund moneys prior to using all of their non-general funds which is required by NDCC. We identified an alternative to the Medicaid funding structure that, if used, could result in approximately \$550,000 net general fund savings per biennium. Additional revenue could also be generated by making changes to the Basic Care rate schedule, periodically verifying information on financial affidavits, charging residents rent for days on leave, and improving the rent collection process.

The Veterans' Home should improve the accounting process for the funds maintained in the Commandant's Custodial Fund and not commingle resident funds with other non-resident funds, ensure all interest earned on moneys deposited by residents with the Veterans' Home is paid to residents, and use donated funds for the specific purpose for which donations were received. We noted that applicable payroll taxes were not appropriately withheld by the Veterans' Home when bonuses were paid to employees and as a result, tax implications, penalties, and other payments may result for both the Veterans' Home and its employees once the appropriate state and federal entities are notified. We also noted that the Veterans' Home used appropriated funds for nonpublic purposes, thus violating constitutional provisions.

The Veterans' Home should improve compliance with requirements for public improvement projects and should utilize project numbers on the state's accounting system. Improvements are also needed for complying with procurement laws, rules, and policies as well as establishing additional controls related to contracts. Improvements could also be made to the accounting process used for skilled care residents. The Veterans' Home should comply with NDCC regarding employee mileage reimbursement requirements and formal policies should be established in the accounting, budgeting, and financial areas. Finally, the Veterans'

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Home should use the state's accounting system to pay all bills and should close the checking account currently used to pay some of its bills.

Staffing and Level of Care

An independent consultant was hired to determine whether staffing levels at the Veterans' Home were reasonable and whether the level of care provided was appropriate. The consultant noted that the Veterans' Home campus is a good facility and that most divisions are providing an adequate level of care. However, the consultant noted that the acuity level (level of care required) for Basic Care is higher than industry standards meaning that residents are being cared for at more dependent levels than the licensure rules for Basic Care suggest. The consultant noted the evacuation capability of residents needs to be assessed and that the Veterans' Home should have the Quality Assurance Committee conduct routine self-assessments of facility programs and systems for identification of potential improvement projects. The consultant also noted changes were needed with the number of staff at the Veterans' Home, as well as changes with the nursing division structure. The consultant identified improvements and changes that should be made to surveys to assist the Veterans' Home in identifying and measuring areas of needed improvement. Lastly, the consultant noted changes should be made to improve employee satisfaction.

Introduction

Purpose and Authority of the Audit

A performance audit of the North Dakota Veterans' Home was conducted by the Office of the State Auditor pursuant to Chapter 32 of the 2001 Session Laws. As stated in Session Law, the performance audit was to be conducted during the biennium beginning July 1, 2001 and ending June 30, 2003. This Session Law stated that the services of a consultant may be used and the cost of such consultant may be assessed to the Veterans' Home. This Session Law also required that the results of the performance audit be presented to the appropriations committees during the Veterans' Home's budget presentation during the 58th Legislative Assembly.

A performance audit is an objective and systematic examination of evidence for the purpose of providing an independent assessment of the performance of a government organization, program, activity, or function in order to provide information to improve public accountability and facilitate decision-making by parties with responsibility to oversee or initiate corrective action. The purpose of this report is to provide our analysis, findings, and recommendations regarding our limited review of the Veterans' Home.

Background Information

The Constitution of North Dakota provides for a Soldiers' Home or such other charitable institution as the Legislative Assembly may determine, at the city of Lisbon, in the county of Ransom. This Soldiers' Home, which changed its name to the Veterans' Home in 1985, was established in 1891 and has been in operation since 1893. The first veteran entered the Home on August 2, 1893.

The initial barracks building was completed on August 1, 1893. The new barracks building was completed and formally dedicated on June 7, 1950. A new addition was added to the Veterans' Home in 1980 and the operations were significantly changed with the addition of a Skilled Care unit in 1991. Currently, the Basic Care unit is licensed for 111 beds and the Skilled Care unit is licensed for 38 beds. The occupancy rates from July 1999 through May 2002 for these two units can be seen in Appendix B.

A basic care facility is a residence that provides room and board for those individuals, who because of their impaired capacity for independent living, require health, social, and personal care services, but do not require 24-hour medical or nursing services. These facilities make response staff available at all times.

A skilled care facility is a residence that provides nursing care which allows residents to attain the highest level of independence by providing 24-hour nursing services.

As stated in North Dakota Century Code (NDCC) Chapter 37-15, the Administrative Committee on Veterans' Affairs is responsible for the organization, policy, and general administration of veterans' affairs. The

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committee is comprised of 15 members, three each representing the following five major veteran organizations:

- American Legion;
- Veterans of Foreign Wars;
- Disabled American Veterans;
- Veterans of World War II, Korea, and Vietnam (AmVets); and
- Vietnam Veterans of America.

The Chairman and Secretary of this committee select the Veterans' Home Subcommittee and the Department of Veterans Affairs Subcommittee from the voting members of the Administrative Committee on Veterans' Affairs. The Veterans' Home Subcommittee is responsible for the supervision and government of the Veterans' Home. The Administrative Committee on Veterans Affairs is responsible for appointing the Commandant of the Veterans' Home. An organizational chart for the Veterans' Home can be seen in Appendix C.

NDCC Chapter 37-15 establishes the criteria for becoming a resident at the Veterans' Home. All residents must meet the following criteria:

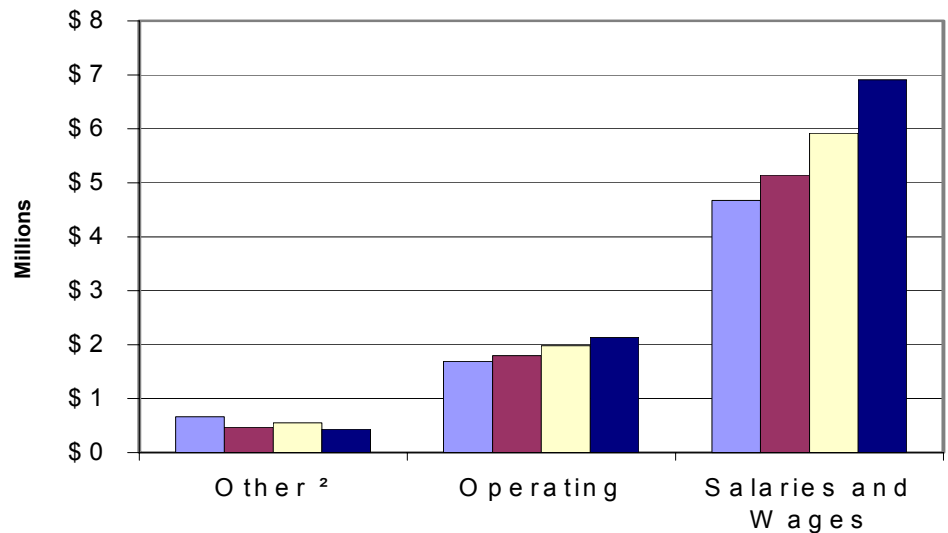
- Must be a veteran as defined in NDCC Section 37-01-40 or an honorably discharged soldier of the North Dakota National Guard who may have become permanently disabled from any cause while in the line and discharge of duty or the spouse/surviving spouse of these individuals;
- Must be a bona fide resident of this state for at least one year preceding the applicant's application for admission into the Veterans' Home (this is waived if the applicant served in a North Dakota regiment or their service was accredited to this state);
- Must have made formal application and furnished such proof as is required; and
- If the individual is a spouse or surviving spouse, that individual must have entered into the contract of marriage to the veteran at least five years prior to the date of application and must have attained the age of 45 years of age at the date of application.

State law provides for a priority listing for entry into the Veterans' Home when a waiting list exists for admission into the facility. Currently, a waiting list only exists for the Skilled Care unit. Veterans with a service-connected disability are to be given the highest priority, while surviving spouses are given the lowest priority for entry into the Veterans' Home.

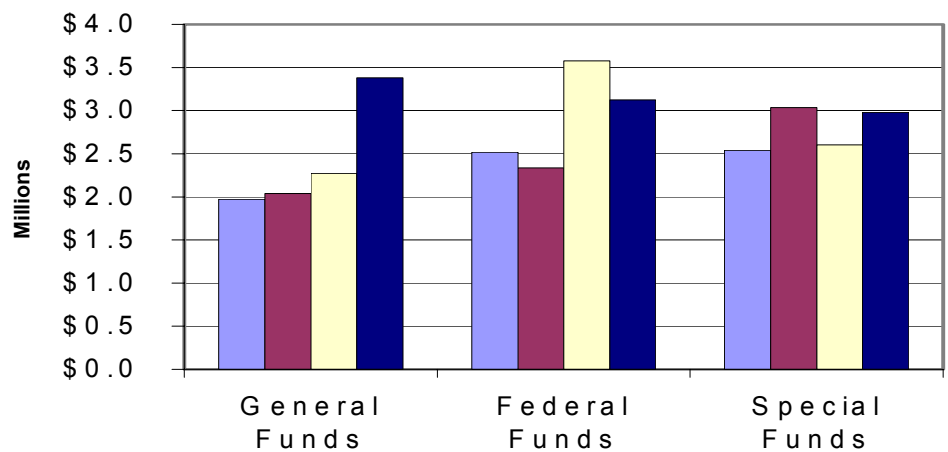
Budget information for the Veterans' Home is identified in the graphs on the following page. The applicable expenditure information can be seen in Appendix D.

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Appropriations by Line Item ¹



Appropriations by Source ¹



1995-1997 1997-1999 1999-2001 2001-2003

¹ Data obtained from Statewide Accounting and Management Information System.

² Expenditures included in "Other" are: Equipment, Capital Improvements, and Capital Construction Carryover.

Goals of the Audit

North Dakota Century Code Section 54-10-01 requires our office to conduct performance audits in accordance with generally accepted government auditing standards. The goals of our audit, listed below, include the necessary elements of a performance audit conducted in accordance with generally accepted government auditing standards.

Chapter 1 Introduction

<i>Goal One</i>	Is management and the administrative structure of the Veterans' Home effective?
<i>Goal Two</i>	Is the Veterans' Home properly obtaining, accounting for, and utilizing financial resources efficiently and effectively?
<i>Goal Three</i>	<p>Is the Veterans' Home reasonably staffed?</p> <p>To assist us in the areas noted above, a Request for Proposal (RFP) that sought competitive bids from consultants with expertise in the area of long-term care was sent to selected organizations. The three areas outlined in the <i>Scope of Services</i> section of the RFP were:</p> <ul style="list-style-type: none">• Quality/Level of Care• Staffing Levels• Management/Organizational Structure <p>The Request for Proposal was awarded to the consulting firm of Pathway Health Services.</p>

Scope & Methodology

This audit was conducted in accordance with generally accepted government auditing standards and accordingly includes appropriate performance auditing and evaluation methods. Audit fieldwork was conducted from January 28, 2002 through June 24, 2002. The audit period for which information was collected and reviewed was July 1, 1999 through December 31, 2001. In certain cases, subsequent information was reviewed. This was due, in part, to review legislative intent and to provide updated information regarding revenues, expenditures, and other financial areas. Specific methodologies are identified in the respective chapters of this report.

Management and Administrative Structure

Introduction

One of the goals of this performance audit was to answer the following question:

“Is management and the administrative structure of the Veterans’ Home effective?”

Through tests and reviews performed, significant improvements and changes are required to increase the effectiveness of the management of the Veterans’ Home. We concluded that the current Commandant, administrator of the Veterans’ Home, has not been adequately monitored and as a result, the Commandant has not been held accountable for resources being used inefficiently and ineffectively, noncompliance with significant state and federal laws, and inappropriate actions taken. The Administrative Committee on Veterans’ Affairs, the committee responsible for the supervision and government of the Veterans’ Home, requires significant changes in the Committee size, membership, structure, and operations.

The Veterans’ Home needs to establish a strategic plan which will identify a long range plan and provide for measuring the productivity and operations of the Home. The accounting, budgeting, and financial functions need to be restructured and management needs to ensure classified positions at the Veterans’ Home are held by individuals who at least meet the minimum qualifications of the position. In addition, the Veterans’ Home should make improvements in the processes used to prepare and monitor its budget, as well as complying with legislative intent identified during the budget process.

The Veterans’ Home should comply with the North Dakota Century Code priority listing for admission to the Veterans’ Home and ensure past residents pay balances owed the Veterans’ Home prior to readmission. The Veterans’ Home has established rules in North Dakota Administrative Code but these rules have become outdated, have not been modified since 1987, and require change. Also, the Veterans’ Home needs to have the personnel officer involved in the hiring and performance review processes to enhance compliance with requirements in these areas.

The improvements noted above are discussed in this chapter and improvements of less significance were communicated to management in a separate letter.

To determine whether management and the administrative structure were effective, we:

- Reviewed laws, regulations, rules, policies, and procedures pertaining to the Veterans’ Home;
- Reviewed management controls surrounding laws, rules, regulations, policies, and procedures;

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Management and Administrative Structure

- Reviewed the Veterans' Home's administrative structure;
- Reviewed data and information pertaining to selected skilled care facilities, basic care facilities, and other states' veterans' homes; and
- Interviewed selected Veterans' Home staff and members of the Administrative Committee on Veterans' Affairs.

Administrative Structure and Organization

Administrative Committee on Veterans' Affairs

North Dakota Century Code Chapter 37-18.1 establishes the Administrative Committee on Veterans' Affairs membership and responsibilities. The Administrative Committee is responsible for the organization, policy, and general administration of all veterans' affairs in North Dakota. Information regarding the Administrative Committee and Veterans' Home organization is below.

The Administrative Committee is comprised of 15 voting members, each appointed by the Governor, representing the five major veteran organizations in the state. Each year, the Governor is to appoint one member from a list of two names submitted by the following veteran organizations:

- American Legion;
- Veterans of Foreign Wars;
- Disabled American Veterans;
- Veterans of World War II, Korea, and Vietnam (AmVets); and
- Vietnam Veterans of America.

The Administrative Committee is also comprised of three nonvoting members who are to serve in an advisory capacity – the North Dakota Adjutant General, the Center Director of the federal Veterans Affairs, and the Executive Director of Job Service North Dakota.

The Governor appoints a chairman and secretary of the Administrative Committee. These two appointees are responsible for appointing, from the voting membership of the Administrative Committee, two subcommittees – a subcommittee responsible for the supervision and government of the Veterans' Home and a subcommittee to be responsible for the supervision and government of the Department of Veterans' Affairs. The Administrative Committee is to appoint the Commandant of the Veterans' Home.

Veterans' Home

As identified in the Constitution of North Dakota, a Soldiers' Home, or other charitable institution as the Legislative Assembly may determine, is to be located in Lisbon. The Commandant, or administrator, of the Veterans' Home is appointed to a two-year term by the Administrative Committee on Veterans' Affairs. The Veterans' Home is comprised of seven divisions and an organizational chart can be seen in Appendix C.

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Management and Administrative Structure

Monitoring and Oversight of the Commandant

Through a review of information, tests performed, and interviews conducted, we determined the Commandant had used resources in an inefficient and ineffective manner, had not complied with significant state and federal laws, and had taken other inappropriate actions. Examples of this information and the Commandant's actions taken, or not taken, which were noted during our review are further described below (a number of the following areas are addressed further in the remainder of the report).

1994 Special Review

In 1994, our office conducted a special review of the Veterans' Home at the request of the Director of the Office of Management and Budget. The current Commandant was also the Commandant at the time the 1994 special review was performed. That review contained 13 recommendations and we determined that only 3 of those recommendations have been implemented. Otherwise, the remaining recommendations have been partially implemented or have not been implemented. This performance audit identified a number of the same problem areas that were identified and reported in 1994. For example, the 1994 review noted that the budget should be monitored at the division level. While this appeared to have occurred at first, currently division managers are receiving very little, if any, budget and/or expenditure information to effectively monitor the budget. Also, the 1994 review noted that the Veterans' Home did not comply with the priority listing for admission into the Veterans' Home as identified in North Dakota Century Code. Currently, the Veterans' Home is still in noncompliance and has not taken any action to modify this requirement. This appears to indicate an unwillingness to change areas identified as having problems.

Inappropriate Action Taken

During this audit, we became aware of an incident involving the Commandant and inspectors from the North Dakota Department of Health. The Department of Health is responsible for conducting an annual survey of the Veterans' Home for licensing purposes. In January 2000, two employees of the Department of Health met with the Commandant to explain the results of the survey. Per review of the affidavits signed by the Department of Health employees, the Commandant became very upset during this meeting and spoke to the two individuals in a threatening manner. The affidavits state that the Commandant reached into a desk drawer and pulled out a gun which had a wooden handle and metal barrel. The Commandant identified that the gun was a cap-gun. However, both affidavits point out that it was a frightening experience for the employees and one states that they feared for their lives. The Commandant did send the two employees apology letters but the letters were written approximately three months after the incident. When representatives of the Department of Health were asked about actions taken in relation to the incident, a representative stated that they had met with the Commandant who stated the pulling of the

Chapter 2

Management and Administrative Structure

gun was meant as a joke and that it would not happen again. The Department of Health took no further action in relation to this incident.

Commandant's Custodial Fund

North Dakota Century Code (NDCC) authorizes the Commandant to accept and expend funds from any source, including donations, gifts, or bequests, to be used to benefit the Veterans' Home and the Veterans' Home may establish and maintain a local fund to administer these moneys. Residents are allowed to deposit their moneys with the Veterans' Home which is responsible for holding, safeguarding, managing, and accounting for these personal funds of the residents. The Veterans' Home has one checking account that is used for both donations received and residents' funds deposited with the facility. We concluded the resident funds are commingled with nonresident funds, which results in noncompliance with the Code of Federal Regulations. We also determined that all interest earned on resident funds deposited with the Veterans' Home is not being appropriately paid to the residents. In addition, we noted that donated funds received by the Veterans' Home were not used for the specific purposes for which the donated funds were given. This results in noncompliance with NDCC. The Commandant did note that there were questions regarding how the interest on the checking account could be used. However, it was not until March 2002 (after the performance audit was started) that the Commandant requested and received appropriate guidance from the Attorney General's Office related to interest earned on the account.

Noncompliance Issues

During our review and tests performed, we noted several instances of noncompliance with laws, regulations, rules, policies, and legislative intent that were a direct result of actions taken, or lack of actions taken, by the Commandant. Examples include:

- During the 1997 Legislative Session, the Veterans' Home received five additional full-time equivalents (FTEs). According to budget documentation, one of these new FTEs was to be for a purchasing agent. The Commandant did not use this FTE as a purchasing agent position, but rather used this FTE to establish another accounting position.
- The Commandant permitted bonus payments to employees to be paid out of the operating line item rather than the salary line item. As a result, not only did the Veterans' Home fail to comply with Office of Management and Budget policies, but it also failed to comply with applicable federal tax requirements, as no payroll taxes were appropriately withheld. The Veterans' Home must notify the applicable federal and state entities, such as the Internal Revenue Service and the Office of the State Tax Commissioner, that appropriate payroll taxes were not withheld from payments to employees. This may result in tax consequences not only for the Veterans' Home but also for the employees who received bonus payments.

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- The Commandant has allowed appropriated funds to be used for inappropriate and nonpublic purposes. As a result, the Veterans' Home is not in compliance with constitutional provisions regarding the use of public funds.
- The Veterans' Home is in noncompliance with the priority listing in NDCC. When a waiting list for admission into the Veterans' Home exists, NDCC identifies a priority listing and also identifies that an individual whose priority is higher than another individual's must be admitted before that other individual. The first priority listed in NDCC is veterans with a service-connected disability. The Veterans' Home has established their own priority listing which is used before the priority listing identified in NDCC. The Veterans' Home has three higher priorities for a waiting list than what is provided for in NDCC. Thus, the number one priority in state law, veterans with a service connected disability, is number four under the Veterans' Home priority list. Noncompliance with the priority listing in NDCC was formally addressed to the Commandant in 1994 and it was recommended to comply with the requirement or initiate action to change the law. The Commandant appears to have done neither.
- The Commandant did not comply with NDCC requirements relating to bidding, procuring proper plans, and receiving proper approval when a new addition (referred to as the "gazebo") was added to the Veterans' Home.
- The Commandant has not properly conducted performance reviews of the division managers and staff in the administration division as required by North Dakota Administrative Code (NDAC). This also was formally addressed to the Commandant in 1994. When this issue was discussed with the Commandant during this audit, the Commandant noted that he was aware of this situation and that this was not something that he did not already know.
- The Commandant determined on his own, who would be placed into one of the two Accounting/Budget Specialist II positions at the Veterans' Home. The individual the Commandant selected for the position did not meet the minimum qualifications of the position (and currently does not meet the minimum qualifications) which results in noncompliance with North Dakota Administrative Code.
- The Commandant is responsible, per the duties listed on the position description, for keeping NDAC updated. The North Dakota Administrative Code sections pertaining to the Veterans' Home have not been revised since 1987. Since that time, major changes have occurred at the Veterans' Home, such as the opening of the Skilled Care unit in 1991, and we noted several noncompliance areas with NDAC requirements.

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Management and Administrative Structure

Interfering with the Survey Process

As a part of this performance audit, we sent all employees of the Veterans' Home a survey to obtain information regarding employees' job satisfaction, communication aspects, and other various topics related to their employment at the Veterans' Home. Two employees of the Veterans' Home informed us that the Commandant stated that he would get a lawyer and find out who had said what on the surveys. The two employees informed us that they believed the remarks made by the Commandant were a threat. We believe the Commandant's remarks had a negative influence on the survey process and may have been part of the reason that we had a very low employee response rate with the survey.

Evaluation of Commandant's Performance

The Administrative Committee on Veterans' Affairs has developed administrative guidelines regarding the operations of the Committee. Within these guidelines is the requirement that the Veterans' Home Subcommittee conduct a performance review of the Commandant. Based on the information contained in the Commandant's personnel file and discussions with the chair of the subcommittee, no formal evaluation process or forms were used to conduct a performance review. It appears an informal process was used and the only documentation regarding evaluations identified to us related to motions being made and passed by the subcommittee regarding the Commandant's performance. These motions were very general and not based on the duties identified in the Commandant's position description. For example, in 2001 the motion made was that the Committee felt that the Commandant "has performed very satisfactory this biennium and should continue as Commandant for 2001-2003 biennium." Based on our review, the Commandant had not performed in a "very satisfactory" manner. A number of problem areas identified during this performance audit could have been alleviated through an adequate evaluation process, since a number of deficiencies noted during the audit were specifically addressed in the Commandant's position description.

We noted a number of problem areas identified during the audit were a result of actions taken, or lack of actions taken, by the Commandant. Certain areas noted were specifically identified as being the responsibility of the Commandant on his position description. For example, the fact that the North Dakota Administrative Code article pertaining to the Veterans' Home is outdated (not revised since 1987) could have been identified in a proper performance appraisal since the position description for the Commandant identifies that the Commandant is responsible for keeping the rules updated. Also, the position description identifies that the Commandant is responsible for ensuring donated funds are spent as requested and that all state and federal laws pertaining to the Veterans' Home are complied with. The Administrative Committee on Veterans' Affairs has no control or monitoring mechanism to determine if these responsibilities were properly fulfilled. We determined both of these responsibilities were not fulfilled by the Commandant.

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Management and Administrative Structure

Recommendation 2-1

We recommend the Administrative Committee on Veterans' Affairs ensure the Commandant is fulfilling the position's responsibilities and duties in an efficient and effective manner. The Administrative Committee should, at a minimum:

- a) Establish detailed, measurable goals for the Commandant;
- b) Conduct an annual, detailed, and formal evaluation of the Commandant including a determination of goal attainment;
- c) Hold the Commandant accountable for actions, or lack of actions, taken;
- d) Ensure the Commandant receives appropriate training in areas requiring improvement;
- e) Track the implementation of recommendations contained in the performance audit report; and
- f) Determine whether recommendations are appropriately implemented.

If the Administrative Committee does not identify significant improvement in the Commandant's management and appropriate implementation of recommendations in this audit report, the Administrative Committee must consider appointing a new Commandant.

Management's Response

Agree

The Administrative Committee on Veterans Affairs will establish a plan and timetable, implement by addressing items noted by the auditor. (Please see Appendix I for the Administrative Committee's additional comments.)

Making Changes to the Administrative Committee on Veterans' Affairs

Through a review of the responsibilities of the Administrative Committee on Veterans' Affairs, the design of the Committee, and the Committee's operations and actions taken, there are changes necessary to improve how the Committee functions and operates. We noted that the Administrative Committee on Veterans' Affairs should exercise more control and direction over the Veterans' Home, reduce the size of the Committee, modify the Committee membership, redesign the Committee's operations, and ensure compliance with North Dakota Century Code requirements.

Exercising More Control and Direction Over the Veterans' Home

Through our review of information, discussions with selected individuals, and review of the significant problems noted during this audit, we determined that the Administrative Committee on Veterans' Affairs is not effectively monitoring or providing direction to the Veterans' Home. A number of the problem areas identified in our review may have been alleviated with proper planning, supervision, and oversight by the Committee. In addition, becoming more involved and active in the Veterans' Home's operations would provide the Administrative Committee on Veterans' Affairs with additional knowledge to make effective decisions regarding the Veterans' Home.

Chapter 2

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We noted that the Committee has not addressed formal planning areas for the Veterans' Home including the establishment of a strategic plan or performance measures. The Committee does not have criteria for determining whether the Veterans' Home is operating efficiently and effectively. There are no performance measurement systems in place to adequately monitor the Veterans' Home's operations. For example, the Veterans' Home could establish measurable goals related to occupancy rates, a comprehensive monitoring index tool to measure quality, and survey satisfaction ratings of both residents and employees. While Committee members informed us that they meet with residents and employees, there is no formal mechanism in place for the Committee to effectively monitor resident and employee satisfaction. The consultant also noted that a new and specific oversight role could be created for the Administrative Committee on Veterans' Affairs if the Committee were to monitor the effectiveness in achieving the common goals.

Information that is provided to the Administrative Committee on Veterans' Affairs appears to be obtained mainly through the Commandant or one of the Veterans' Home's two accountants. The Committee does not receive information or presentations from division managers of the Veterans' Home. Thus, information regarding specific areas of the Veterans' Home, such as the care given and social aspects, is not obtained from the individuals specifically responsible for the areas (in this case the Director of Nursing and the Manager of Social Services).

Recommendation 2-2

We recommend the Administrative Committee on Veterans' Affairs exercise more control and direction over the Veterans' Home. The Administrative Committee should, at a minimum:

- a) Become involved in the strategic planning and monitoring process;
- b) Become involved in the budgeting process and request explanations/justification regarding changes in the budget;
- c) Monitor the budget and expenditures and request explanations regarding variances;
- d) Require periodic reports or presentations from division managers; and
- e) Monitor resident and employee satisfaction through a formal survey process.

Management's Response

Agree

The Administrative Committee on Veterans Affairs will establish a plan and timetable, implement by addressing items noted by the auditor.

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Reducing Committee Size and Modifying Appointment Process

The Administrative Committee on Veterans' Affairs is a 15-member committee with three members representing each of the five major veteran organizations in the state. In a comparison with 33 other policy-making boards and commissions in the state, we noted that only the Lignite Research Council (25 voting members), International Peace Garden Board of Directors (21 voting members), and the Rural Development Council (18 voting members) were larger in size than the Administrative Committee. The average size noted with the 33 boards was 8.7 voting members. Based on information provided by other states, the Administrative Committee was the largest of three other states reviewed that had a board or committee overseeing or monitoring a veterans' home. Two states were noted as having their veterans' home under the authority of the state's veterans' affairs department.

Other than the qualification of being a veteran, there are no other criteria, qualifications, or experience that are needed to be a member of the Administrative Committee on Veterans' Affairs. It is up to the veteran organizations to nominate qualified individuals to serve on the Committee. We noted that the Committee membership had no member with sufficient work experience, skills, or knowledge in the long-term care field other than the experience gained while serving on the Committee.

To assist the Administrative Committee on Veterans' Affairs with the changes recommended in this report (mainly exercising more control and direction over the Veterans' Home, as well as ensuring the Commandant fulfills the responsibilities of the position) the Committee should become smaller and require that at least two members have sufficient knowledge and experience in the long-term care area. The Committee can become smaller while still maintaining the representation from each major veteran organization. Rather than having three members from each organization, each organization would have one member on the Committee. Also, the Governor can continue to appoint a member from each veteran organization and could also be allowed to appoint two members at large. These changes will assist the Committee in making the changes recommended, as well as providing for a more efficient and effective decision-making body.

Recommendation 2-3

We recommend the Administrative Committee on Veterans' Affairs take appropriate action to reduce the Committee membership size and modify the Committee appointment process. There are several options the Administrative Committee could pursue including:

- a) Reducing the size of the Administrative Committee to seven members, five of which are appointed by the Governor from nominations from each of the five major veteran organizations and two of which are appointed by the Governor at large;
- b) Ensuring that at least two members have appropriate knowledge and experience in the long term care field; and
- c) Taking the appropriate action to amend or modify North Dakota Century Code to allow these changes to occur.

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Management's Response

Agree

The Administrative Committee on Veterans Affairs will study and research the proposal and discuss various options with the Veterans Organizations and have a recommendation ready by December 15, 2002. If necessary, they will draft legislation to implement.

Redesigning Committee Operations

If the Administrative Committee on Veterans' Affairs were to be reduced in size, the operations of the Committee could be redesigned to improve the efficiency and effectiveness of the Committee operations. As required by Century Code, the Administrative Committee on Veterans' Affairs has two subcommittees – one for the supervision and government of the Veterans' Home and one for the supervision and government of the Department of Veterans' Affairs. While the Veterans' Home subcommittee meets on a monthly basis, the other subcommittee meets quarterly at the same time that the full Administrative Committee on Veterans' Affairs meetings are held. Subcommittee actions are approved by the full Committee which creates inefficiencies as half the members are hearing and discussing the same information already addressed during subcommittee meetings. Also, the chair of the Committee is not able to attend both subcommittee meetings when they are held simultaneously like they are at the quarterly meetings.

A smaller Administrative Committee would allow the structure and design of the Committee to be modified as the need for separate subcommittees would no longer be necessary. Also, a smaller Committee would allow the members to be more actively involved and provide an easier means of having a quorum for meetings. The use of technology would also assist the Committee, as meetings could be held via phone conference with necessary information mailed or faxed to members prior to meetings. If a smaller Committee were to be appropriately structured or designed, the Committee's time could be used in a more efficient and effective manner.

Recommendation 2-4

We recommend the Administrative Committee on Veterans' Affairs take appropriate action to restructure and redesign the Committee's operations once the membership size and appointments have been changed. The Administrative Committee should:

- a) Eliminate the subcommittee structure;
- b) Determine whether monthly meetings for the Veterans' Home and quarterly meetings for the Department of Veterans' Affairs are sufficient to fulfill the Committee's responsibilities;
- c) Utilize technology to enhance the efficiency of meetings; and
- d) Take the appropriate action to amend or modify North Dakota Century Code to allow these changes to occur.

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Management's Response

Agree

The Administrative Committee on Veterans Affairs agrees to study and research the proposal and discuss various options with the Veterans Organizations and have a recommendation ready by December 15, 2002. If necessary, they will draft legislation to implement.

Ensuring Compliance with Century Code

North Dakota Century Code (NDCC) Section 37-18.1-03 identifies the powers and duties of the Administrative Committee on Veterans' Affairs and establishes the appointment of two subcommittees – one to be responsible for the supervision and government of the Veterans' Home and one to be responsible for the supervision and government of the Department of Veterans' Affairs. Two duties identified in this section include:

- The Committee is to detail the specific powers and duties of each subcommittee relating to supervision, government, and implementation of programs or services provided by the Veterans' Home and the Department of Veterans' Affairs; and
- The Committee is to assure compliance with applicable federal and state laws in the administration of both the Veterans' Home and the Department of Veterans' Affairs.

The Administrative Committee on Veterans' Affairs has not identified the specific powers and duties of the Veterans' Home Subcommittee. Thus, there is no specific information regarding what the subcommittee should, or should not do, as well as what actions or procedures at the Veterans' Home the subcommittee should or should not be involved with. Also, our review identified a number of noncompliance issues with state and federal laws as well as state administrative code at the Veterans' Home and there appears to be little, if any, controls established by the Administrative Committee on Veterans' Affairs for assuring compliance with federal and state laws.

Recommendation 2-5

We recommend the Administrative Committee on Veterans' Affairs comply with North Dakota Century Code Section 37-18.1-03, Subsections 2 and 5, and:

- a) Detail the specific powers and duties relating to the supervision, government, and implementation of programs or services provided by the Veterans' Home; and
- b) Assure compliance with applicable federal and state laws in the administration of the Veterans' Home.

Management's Response

Agree

The Administrative Committee on Veterans Affairs will formulate a detailed listing of specific powers, duties and compliance requirements as required by North Dakota Century Code, Section 37-18.1-03, subsections 2 and 5.

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Developing a Strategic Plan

During the preliminary work performed in this audit, we noted that the Veterans' Home lacked a formal strategic plan. Pathway Health Services, the hired consultant, noted that understanding industry and market change and creating a clear and decisive organizational direction is critical for today's providers of long-term care services. The consultant noted that the Veterans' Home is in the midst of significant change and is lacking a clear strategic direction around which staff efforts can be aligned.

The consultant also identified the importance of establishing clear and measurable operational performance targets to plainly define current expectations and allow for more effective delegation and accountability with the operation. The pursuit of a clear set of targets strongly promotes teamwork, alignment of effort, and potentially adds meaning to individual jobs. The consultant notes that most management teams and organizational staff they have observed are far happier and more effective when operating with unambiguous targets in mind.

Recommendation 2-6

We recommend the Veterans' Home develop a strategic plan with significant input from its stakeholders that establishes both a short-range and a long-range plan. The strategic plan should provide for measuring the productivity and operations of the Veterans' Home and should be periodically reviewed and revised.

Management's Response

Agree
The North Dakota Veterans Home will establish a strategic plan.

Making Changes in the Accounting, Budgeting, and Financial Areas

Through a review of accounting and budgeting processes, a review of a sample of expenditures, and discussions with representatives at the Veterans' Home, there are changes necessary to improve the operations in the accounting, budgeting, and other financial areas. We noted that the Veterans' Home should restructure this area, ensure individuals meet the minimum qualifications of positions held, and make improvements with preparing and monitoring the budget. In addition, the consultant's work identified a need for improving the management of expenditures at the Veterans' Home. Chapter 3 of this report addresses additional improvements required in the financial areas.

Restructuring the Accounting Areas

In the administration division, the Veterans' Home has two Accounting/Budget Specialist II positions and one Account Technician II position. All three positions are 100% full-time equivalents and all three positions report directly to the Commandant. One of the individuals in the Accounting/Budget Specialist II positions does not meet the minimum qualifications of the position. The consultant identified a need to reorganize the reporting structures in the accounting area.

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A number of the problem areas identified in Chapter 3 of this report relate to financial areas, including noncompliance issues, inappropriate use of funds, and other areas. In discussions with representatives of the Veterans' Home, it was apparent that the two individuals in the Accounting/Budget Specialist II positions did not adequately cooperate and communicate between themselves. We also noted improvements were needed in the budgeting areas. In the work performed by the consultant, they noted that the Veterans' Home has insufficient financial systems, administration, and oversight of financial matters.

While a number of options could be pursued to improve the efficiency and effectiveness of the accounting, budgeting, and financial areas, the Veterans' Home needs to at least establish an improved reporting structure so the Commandant is not the direct supervisor in this area. The consultant also noted that the accounting systems at the Veterans' Home needed to be assessed and redesigned, and there should be one position in charge of the accounting and financial areas.

Recommendation 2-7

We recommend the Veterans' Home restructure the accounting, budgeting, and financial areas to make these functions operate more efficiently and effectively. In the restructuring process, the Veterans' Home should consider:

- a) Having one individual in this area responsible for all accounting, budgeting, and financial information and reporting;
- b) Having this individual assigned supervisory responsibilities over all accounting, budgeting, and financial areas;
- c) Combining responsibilities in the accounting, budgeting, and financial areas; and
- d) Seeking outside assistance from knowledgeable individuals in the accounting, budgeting, and financial areas to aid them in the restructuring process.

Management's Response

Agree

The North Dakota Veterans Home will reorganize the accounting department pursuant to State Agency guidelines.

Complying with Minimum Qualifications

Through tests performed relating to the hiring and evaluation processes, we noted that one of the two Accounting/Budget Specialist II positions was filled by an individual who did not meet the established minimum qualifications of the position as determined by the Central Personnel Division. Within the state's classification system, minimum qualifications are established for each job class in the system. North Dakota Administrative Code Section 4-07-05-03 states that state entities may employ, promote, reinstate, or transfer a person into or to a position in the classified service provided that person possesses qualifications that at least meet the minimum qualifications for that class.

Through discussions with a representative at the Veterans' Home, it was identified that an internal hiring process was used to fill the

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Accounting/Budget Specialist II position. The Commandant conducted the hiring process on his own and apparently made the final decision on his own as well. The minimum qualifications for the position require a bachelor's degree with a major in accounting and one year of professional accounting experience. The Commandant selected an individual who did not have the required accounting degree and two years later, still does not have the required accounting degree. In review of the job duties and responsibilities for this position, it appears the position is at least performing the duties assigned to the level two position of this job class and may even perform the majority of the duties assigned to the level three position. Thus, it does not appear that the position should be classified to a lower job class unless significant duties and responsibilities were removed from the position.

During our review, we did note certain problem areas related to the individual in the accounting position noted above. Examples include:

- As identified in the financial audit for fiscal years ending 2000 and 2001, significant deficiencies were noted in certain accounting areas that are the direct responsibility of this accounting position. The financial audit contained five recommendations, four of which were directly related to the responsibilities of this accounting position. The areas of recommendations included the Veterans' Home not properly completing closing packages, inappropriately paying bonuses out of the operating line item, not properly completing a lease purchase analysis, and not properly reconciling the Veterans' Home's checking account for "petty cash." Per discussion with representatives of the Veterans' Home and review of expenditures, the accountant did receive specific training on closing packages from the prior accountant who was contracted with to provide the training.
- For the bonus payments made to employees out of operating, the Accountant stated that the income was claimed by employees since 1099's were generated and sent to the employees. In review of the 1099's generated for the Veterans' Home by the Office of Management and Budget, the employees who received bonuses did not receive a 1099. Therefore, the statement made to us regarding this matter was inaccurate.
- In discussing budget information related to the 2001-2003 budget, this Accountant appeared confused or unaware of budget information. Two examples are below.
 1. The Accountant noted that \$25,000 was cut from the Veterans' Home budget near the end of the Legislative Session. The Accountant first stated that the entire amount was reduced from general funds but was unaware of which line items the reductions related to. In another meeting, the Accountant changed their response stating that \$25,000 was cut from the temporary salaries and operating line items but did not know

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the funding source. In another meeting with the Accountant, the Accountant noted they knew for sure that \$5,000 was cut from the temporary salaries line item. Based on a review of budget documents, the three different answers provided by the Accountant were all incorrect as the \$25,000 reduction was a \$20,000 reduction in general funds (\$15,000 from temporary salaries and overtime and \$5,000 from operating) and \$5,000 from other funds (all from equipment).

2. We noted that the Veterans' Home received \$26,700 for "Various medical equipment and capital improvements" in the 2001-2003 biennium. When initially asked what the \$26,700 was for, the Accountant identified various nursing equipment and a whirlpool tub. When questioned at a later meeting about whether the Veterans' Home received approval for two whirlpool tubs (since another tub was identified in the budget documentation) the Accountant stated that there must have been a misunderstanding of the information being requested. The Accountant stated they would provide us an explanation of the amount. After a few more contacts with the Accountant over a one-month time period requesting this information, the Accountant provided us the same response as was initially provided (various nursing equipment and a whirlpool tub).
- In review of a memorandum prepared by Legislative Council regarding the history of the Administrative Committee on Veterans' Affairs, we noted information regarding the amount spent by the Veterans' Home for reimbursing members for travel was incorrect and the funding source for the expenditures was also incorrect. The memorandum noted that the Veterans' Home had spent \$13,340 of general funds for travel reimbursement to members during the 1999-2001 biennium. Based on a review of expenditure information, we noted that the amount was approximately \$7,600 all from special funds, not general funds. A representative of Legislative Council stated that this Accountant had provided the expenditure amount and funding source.

Recommendation 2-8

We recommend the Veterans' Home comply with North Dakota Administrative Code Section 4-07-05-03 and:

- a) Ensure individuals employed, promoted, reinstated, or transferred into or to a classified position possess qualifications that at least meet the minimum qualifications of that position; and
- b) Take the necessary action to ensure that all classified positions are filled by individuals who at least meet the minimum qualifications of the position.

Management's Response

Agree

The North Dakota Veterans Home will comply with North Dakota Administration Code Section 4-07-05-03.

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Improving the Budget Process

Through review of budget information, the process involved with preparing the budget, and how the Veterans' Home monitors the approved budget, we noted improvements were necessary in these areas. The Veterans' Home was noted as having significant increases in budget line items, particularly in salaries, as well as a 49% increase in general funds for the 2001-2003 biennium. For the last two biennium, we noted the following:

- The 1999-2001 budget had an increase of over \$1,040,000 (14% increase) from the previous biennium and the 2001-2003 budget had an increase of approximately \$1,030,000 (12% increase) from the previous biennium. The increases in budgets were attributed to significant increases in the salaries and wages line item. The Veterans' Home did receive increases of full-time equivalents of 1.9 in the 1999-2001 budget and 2.4 in the 2001-2003 budget. In addition, the Veterans' Home received salary increases for nurses and certified nurses assistants, equity adjustments, and additional funds for shift differential purposes.
- The 2001-2003 general fund appropriation increased over \$1.1 million (49% increase) from the previous biennium. When asked for an explanation for this increase, the Accountant discussed information relating to a funding change that occurred in the 1997-1999 biennium. Previously, the rent collected from the residents was not placed into the Veterans' Home operating fund but instead was placed into its own fund (Fund 904). This changed during the 1997-1999 biennium as all rent collected was placed into the Veterans' Home operating fund and all moneys in Fund 904 were placed into the operating fund. Fund 904 was closed at the end of June 1998 and approximately \$595,000 was transferred during fiscal year 1998 from Fund 904 to the Veterans' Home operating fund. The Veterans' Home explanation of the change in accounting does not justify the significant increase in general funds. This change occurred during the 1997-1999 biennium and accordingly, did have an effect on the 1999-2001 appropriation.

When the Veterans' Home prepares their budget, the division managers provide information to one of the accountants. However, after this information is provided, the division managers are not informed whether their requests were included in the budget or even what their budget request was, as no information is provided to them regarding the Veterans' Home budget. Also, once the budget is passed by the Legislature, we noted that the division managers are not provided information regarding the approved budget. In addition, the division managers are not provided information regarding actual to budgeted expenditures. This process is not reasonable as the division managers should be involved throughout the entire budget process since they have the most knowledge regarding the operations of their divisions. In order for division managers to adequately monitor their division and

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appropriately identify cost inefficiencies, they need to be provided useful and appropriate information. The 1994 special review conducted by our office did identify that the budget should be monitored at the division level. While it appears division managers received budget information for a relatively short period of time, no information has been provided to them over the last two years.

Recommendation 2-9

We recommend the Veterans' Home improve the processes for preparing and monitoring the budget. At a minimum, the Veterans' Home should:

- a) Include division involvement throughout the entire budget process; and
- b) Provide the necessary information to all divisions to allow the budget to be effectively monitored at the division level.

Management's Response

Agree

The North Dakota Veterans Home will involve all supervisors in the process of creating the budget and be informed of its status.

Complying with Legislative Intent

The Veterans' Home has a number of permanent positions that are less than 100% full-time equivalents (FTEs), such as 50%, 60%, and 80% FTE positions. We performed a review of the number of hours that were paid (includes the hours worked and all paid leave taken) by selected positions that were less than 100% FTE. Using positions that were filled for an entire year, we identified 31 positions that were less than 100% FTE and identified the number of paid hours for these positions. We then compared the actual paid hours to an equivalent number of FTE hours and determined that 22 (71%) of the positions had actual paid hours that significantly exceeded the equivalent FTE hours. For example, we noted a position was budgeted at 50%, yet 2,023 hours were paid which is the equivalent of a 97% FTE position. This does not appear to comply with legislative intent surrounding the use of partial FTEs. When a position is budgeted at 50% FTE, the position should have paid hours that are relatively close to 50% of the paid hours of a 100% FTE position. Using a 10% allowable variance for additional paid hours, we determined that the 22 positions were paid approximately 7,500 extra hours in a year. In order to pay for these additional hours, the Veterans' Home is inflating the position by position budget request, having additional salary funds available through vacated FTE positions, or a combination of the two.

The 1997 Legislature approved five additional FTEs for the Veterans' Home. Per review of budget documentation, the five FTE were provided for a purchasing agent, a custodian, and three health care orderlies. The Commandant informed us that the purchasing agent position was never used by the Veterans' Home but instead was used to create an additional accounting position. No approval appeared to have been granted for this change.

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Recommendation 2-10

We recommend the Veterans' Home comply with legislative intent identified during the budget process. At a minimum, the Veterans' Home should:

- a) Monitor the number of paid hours for positions that are less than 100% full-time equivalents; and
- b) Comply with legislative intent when additional full-time equivalents are authorized.

Management's Response

Agree

The North Dakota Veterans Home will monitor the number of hours the FTE's are working and request from the Legislature additional FTE's.

Improving the Management of Costs

In the work performed by Pathway Health Services, the hired consultant, it was noted that while the Veterans' Home's costs compare favorably to other veteran's homes across the country, the Veterans' Home's costs do not compare favorably when compared to a broader sample of the industry.

Pathway states that there are a number of divisions that had significant spending increases from fiscal year 2000 to fiscal year 2001. Pathway notes that there does not appear to be any operating factors that would necessitate higher than average expenditure increases. Traditionally, long-term care increases have gone up 3-4% per year. Pathway notes that the laundry department had an increase of \$1.37 per patient day or approximately 35%, and the administration department increased \$2.24 per patient day or approximately 12%. Pathway did identify that the nursing division had a reasonable increase of \$2.62 per patient day or 4%.

Pathway noted significant increases in spending in the prior years. These included:

- A reasonable increase of 7.2% in salaries/wages and operating expenditures from the 1995-1997 biennium to the 1997-1999 biennium;
- A generous increase of 13.8% in salaries/wages and operating expenditures from the 1997-1999 biennium to the 1999-2001 biennium; and
- A very generous budget increase of 17.45% in salaries/wages and operating for the 2001-2003 biennium.

Pathway states that actual spending has come within budget which is attributed to these reasons: spending is managed efficiently, the budget request is rich, or a combination of the two. Pathway notes a need for improvement in the management of expenditures and a need to develop cost tracking tools.

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Recommendation 2-11

Pathway Health Services recommends the Veterans' Home improve management of expenditures and develop tools to be used for daily cost tracking functions which will provide division managers with per patient day targets and serve as a vehicle to track and compare actual spending.

Management's Response

Agree

The North Dakota Veterans Home will involve all supervisors in the process of creating the budget and be informed of its status and we will continue to improve our tracking using the Samis reports.

Improving the Admission Process

Based on a review of a sample of residents admitted to the Veterans' Home, there are changes necessary to ensure compliance with admission laws and rules. We noted the Veterans' Home was in noncompliance with the priority listing for admission identified in Century Code and also was in noncompliance with readmission criteria established in Administrative Code.

Complying with the Admission Priority List

North Dakota Century Code (NDCC) Section 37-15-10.1 states that when the Veterans' Home is full and a waiting list for admission is necessary, further admission must be made according to the following listing of priorities:

1. Veterans with service-connected disability.
2. American ex-prisoners of war.
3. Wartime veterans with nonservice-connected disability.
4. Wartime veterans.
5. Discharged North Dakota National Guard members who became disabled in the line and discharge of duty.
6. Veterans with nonservice-connected disability.
7. Veterans.
8. Spouses.
9. Surviving spouses.

North Dakota Century Code further states that an individual whose priority is higher than another individual's must be admitted before that other individual. We noted that the Veterans' Home does not comply with this state law and the Veterans' Home has established its own priorities that supercede the mandated priority listing in state law. The priorities established by the Veterans' Home include:

1. Former residents of the Veterans' Home Skilled Care unit given a medical discharge.
2. Residents of the Veterans' Home Basic Care unit in need of a nursing home.

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3. Former residents of the Veterans' Home Basic Care unit that have been discharged from the Basic Care unit to be placed in an outside nursing home facility.

Noncompliance with the priority listing for admission requirement was identified in the 1994 special review performed by our office. The recommendation provided to the Veterans' Home was to comply with the Century Code requirement or have this section of law modified. It appears the Veterans' Home has done neither.

Recommendation 2-12

We recommend the Veterans' Home either comply with North Dakota Century Code Section 37-15-10.1 and use the established priority listing or take the appropriate action to modify this Century Code section.

Management's Response

Agree

The North Dakota Veterans Home will seek to modify North Dakota Century Code Section 37-15-10.1 to fit our Skilled Facility needs. Draft legislation will be prepared.

Ensuring Compliance with Readmission Requirements

North Dakota Administrative Code (NDAC) Section 86-03-01-06 states that a former resident of the Veterans' Home may be readmitted if all money which may have been owed to the Veterans' Home by the former resident has been paid. In tests performed on the admissions process, we noted one former resident (20% error rate) who was readmitted to the Veterans' Home with a balance owed of over \$2,600. This resident was previously removed from the Veterans' Home due to nonpayment issues. Representatives of the Veterans' Home informed us that the Commandant had approved this admission. The resident was admitted in May of 2000 and at the end of March 2002, the balance owed the Veterans' Home was over \$400.

Recommendation 2-13

We recommend the Veterans' Home comply with North Dakota Administrative Code Section 86-03-01-06 and require that former residents pay all money owed to the Veterans' Home prior to readmission or take the appropriate action to modify this Administrative Code section.

Management's Response

Agree

The North Dakota Veterans Home will submit a revision to Administrative Code section 86-03-01-06.

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Updating North Dakota Administrative Code

North Dakota Administrative Code Article 86-03 identifies the rules and regulations for admission and residency at the Veterans' Home. Through review of the Administrative Code, we noted that the rules have not been updated since 1987. There have been significant changes that have occurred with the Veterans' Home since 1987, such as the opening of the Skilled Care unit in 1991, and our review noted several noncompliance issues with Administrative Code. For example, we noted that Administrative Code requires residents to make a payment into a hospital emergency fund. The Veterans' Home does not require residents to pay into such a fund and in fact, the hospital emergency fund no longer exists. The Commandant's position description identifies that the Commandant is responsible for keeping the Administrative Code updated. Obviously, this has not occurred.

Recommendation 2-14

We recommend the Veterans' Home take the appropriate steps to review all North Dakota Administrative Code sections pertaining to the Veterans' Home and initiate action to update the Administrative Code. If sections are not modified, the Veterans' Home must establish controls to ensure compliance with current sections.

Management's Response

Agree

The North Dakota Veterans Home will review all the administrative codes pertaining to the North Dakota Veterans Home and update where necessary.

Making Improvements in Personnel Areas

Through a review of a sample of new hires and the performance appraisal process, there are changes necessary to improve compliance with personnel requirements. We noted that the Veterans' Home is in noncompliance with state laws, rules, and policies related to the hiring of employees, as well as requirements regarding performance appraisals. We also noted that the personnel officer at the Veterans' Home has not been provided sufficient time and other resources to be actively involved in these areas.

Improving the Hiring Process

In a review of 30 new hires at the Veterans' Home during our audit period, we noted that the Veterans' Home was in noncompliance with laws, rules, and policies relating to the hiring of employees. Our review noted that the Veterans' Home was in noncompliance with veteran's preference requirements in state law and Administrative Code. For example, we identified that proper points were not awarded to veterans and certified mail was not used to notify veterans of their nonselection, both of which are noncompliance with requirements in North Dakota Century Code Chapter 37-19.1. We also noted that the Veterans' Home was not notifying the Central Personnel Division of vacant classified, non-temporary positions that were to be filled by external recruitment as required by North Dakota Administrative Code Section 4-07-05-04.

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Recommendation 2-15

We recommend the Veterans' Home comply with state laws, rules, and policies relating to the hiring of employees.

Management's Response

Agree

The North Dakota Veterans Home will comply with the regulations of North Dakota Century Code for hiring all employees including veterans' preference.

Improving Performance Appraisals

We noted two performance appraisal requirements that the Veterans' Home is to comply with. North Dakota Administrative Code (NDAC) Section 4-07-10-04 requires a performance review to be conducted at least annually. Also, Title 38 of the Code of Federal Regulations (CFR) Section 51.210 requires that a performance review of every nurse aide be completed at least once every 12 months. Through review of information provided by the Veterans' Home, approximately 66% of employees did not have an annual performance review conducted. One employee was identified as not having a review conducted since 1992, one since 1994, and six employees have not had an evaluation conducted since 1996. The Commandant is responsible for conducting the performance review of the employees who have not been evaluated since 1992 and 1994. Of the nurse aides that should have had a performance review conducted within the last 12 months, only 23% (6 of 26) had one conducted.

The 1994 special review conducted by our office noted problem areas with performance appraisals being properly conducted. The Veterans' Home is not only in noncompliance with NDAC and CFR requirements, but the benefits and advantages of conducting performance appraisals, such as control of work to be done and enhancement of employee motivation, were lost. When the problems with performance appraisals were identified to the Commandant, the Commandant stated that this was not new information to him and that he could have supplied us with this information on a note card. This is an indication of a lack of management responsibility relating to taking appropriate action to comply with laws, rules, and policies.

Recommendation 2-16

We recommend the Veterans' Home comply with North Dakota Administrative Code and Code of Federal Regulations relating to performance reviews of employees.

Management's Response

Agree

The North Dakota Veterans Home will comply with the Administrative Code and Code of Federal Regulations; all employees will receive a yearly performance evaluation. This process has begun.

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Involving Personnel Officer

The performance appraisal and hiring processes at the Veterans' Home are very decentralized. Each division is responsible for their hiring process, as well as being responsible for conducting performance appraisals. The Veterans' Home does have a personnel officer position which is filled by an individual with the proper human resources qualifications. However, the individual appears to have other duties and responsibilities assigned outside of the personnel area that do not allow adequate time for the personnel officer to be actively involved in the hiring and performance appraisal processes. For example, the personnel officer has general office duties assigned such as answering the phone and typing meeting minutes as well as being responsible for the daily cash count of the Commandant's Custodial Fund. Sound management principles would suggest that a qualified human resource employee be actively involved in all hiring and employee performance appraisal processes.

Recommendation 2-17

We recommend the personnel officer of the Veterans' Home have sufficient time and resources to become actively involved in the hiring and performance review processes to enhance consistency and ensure compliance with laws, rules, and policies.

Management's Response

Agree
The North Dakota Veterans Home will review and revise where necessary the duties of the Personnel Officer addressing items noted by the auditor.

Financial Resources

Introduction

One of the goals of this performance audit was to answer the following question:

“Is the Veterans’ Home properly obtaining, accounting for, and utilizing financial resources efficiently and effectively?”

Through tests and reviews performed, we noted improvements could be made to increase the Veterans’ Home’s revenues and to use their resources in a more efficient and effective manner. We noted that the Veterans’ Home was inappropriately spending their general fund moneys prior to using all of their non-general funds as required by North Dakota Century Code. We identified an alternative to the Medicaid payment system that, if used, could result in approximately \$550,000 net general fund savings per biennium for the state. We also noted that additional revenue could be generated by making changes to the Basic Care rate schedule, periodically verifying information on financial affidavits, charging residents rent for days on leave, and improving the rent collection process.

The Veterans’ Home should improve the accounting process for the funds maintained in the Commandant’s Custodial Fund and not commingle resident funds with other non-resident funds, ensure all interest earned on moneys deposited by residents with the Veterans’ Home is paid to residents, and use donated funds for the specific purpose for which donations were received. Applicable payroll taxes should be withheld and paid by the Veterans’ Home when bonuses are paid to employees. The Veterans’ Home should also comply with constitutional provisions and use their appropriated funds for public purposes.

The Veterans’ Home needs to improve compliance with requirements for public improvement projects and should utilize project numbers on the state’s accounting system. Improvements in compliance with procurement laws, rules, and policies are also needed, as well as establishing additional controls related to contracts. Improvements could also be made to the accounting process used for skilled care residents. The Veterans’ Home should comply with employee mileage reimbursement requirements and formal policies should be established in the accounting, budgeting, and financial areas. Finally, the Veterans’ Home should use the state’s accounting system to pay all bills. It should close the checking account currently used to pay some of its bills.

The improvements noted above are discussed in this chapter and improvements of less significance were communicated to management in a separate letter.

To determine whether financial resources were obtained, accounted for, and used efficiently and effectively, we:

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- Reviewed laws, regulations, rules, policies, and procedures pertaining to obtaining and using funds;
- Reviewed management controls related to obtaining and using funds;
- Reviewed costs of skilled care facilities, basic care facilities, and other states' veterans' homes; and
- Interviewed selected Veterans' Home and Department of Human Services staff.

Ensuring Compliance with State Law Relating to the Use of General Funds

North Dakota Century Code (NDCC) Section 37-15-14 requires that the moneys from the Veterans' Home's general fund appropriation must be transferred periodically to the Veterans' Home operating fund upon order of the Director of the Office of Management and Budget (OMB) whenever the operating fund's balance requires supplementation. The section also requires that moneys received from the United States for the support and maintenance of the Veterans' Home are to be deposited into the Veterans' Home operating fund. A formal Attorney General's Opinion was requested for clarification of the law's requirements. A copy of the opinion can be seen in Appendix E. The opinion does clarify that the Veterans' Home is required to spend their non-general fund money first and this is to be supplemented by general fund appropriations when the Director of OMB determines supplementation is required. In addition, the opinion states that federal funds received by the Veterans' Home must be deposited in the Veterans' Home operating fund. The opinion also notes that the Legislature may, through establishing a state law or by specific direction in session laws, create an exception to these general rules.

Discussions were held with representatives of OMB due to the fact that NDCC required OMB to transfer general funds to the Veterans' Home operating fund when it required supplementation. It appears OMB is not transferring general funds as provided for in NDCC but instead, established a control within the state's accounting system to have expenditures automatically paid out of the Veterans' Home operating fund (if sufficient funds are not available in the operating fund, the expenditure would then be paid from general funds). However, through review of expenditure information, the Veterans' Home overrides this control by manually inputting the funding source for almost all expenditures.

We performed a review of the Veterans' Home's use of general funds and noted that the Veterans' Home spent significant amounts of general fund moneys on expenditures when sufficient non-general funds were available. For example, on January 8, 2001, the Veterans' Home spent approximately \$70,000 of general fund moneys on salaries, benefits, and operating expenses. On that day, the Veterans' Home had over \$37,000 in their operating fund and over \$443,000 in federal funds available. We also noted that the Veterans' Home had spent all of their general fund

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appropriation by the end of February 2001 (four months remaining in the biennium). On February 28, 2001, the Veterans' Home had over \$87,000 in their operating fund and over \$704,000 in federal funds available. Based on our review, the Veterans' Home is in noncompliance with this section of the North Dakota Century Code regarding the use of their general funds.

Based on the Attorney General's Opinion, the Veterans' Home is required to deposit their federal funds into the Veterans' Home operating fund. The Veterans' Home is in noncompliance with this requirement as the federal dollars received by the Veterans' Home are deposited into the federal fund established in the state's accounting system.

Recommendation 3-1

We recommend the Veterans' Home comply with North Dakota Century Code Section 37-15-14 and:

- a) Spend all non-general fund money prior to spending general funds; and
- b) Account for all money received in the Veterans' Home operating fund except as provided in NDCC Section 37-15-21.

Management's Response

Disagree

The North Dakota Veterans Home will seek a change in North Dakota Century Code 37-15-14.

Generating Additional Revenue

Through a review of laws, policies, and procedures pertaining to the Veterans' Home's funding sources, reviews performed on management controls pertaining to the generation of revenue, and interviews with selected individuals, there are changes that can be made which would result in additional revenue for the Veterans' Home. This would reduce the amount of general funds needed by the Veterans' Home. We noted an alternative to the Medicaid rate structure that could result in a net general fund savings of over \$550,000 per biennium for the state. We also noted that improvements are necessary with the Basic Care rent schedule to ensure the rates are equitable and to raise the rate amounts. Improvements are needed with how the net income of Basic Care residents, used in determining a rent amount, is identified. Finally, changes are necessary in how rent is charged and how it is collected.

We attempted to review the effect of having the Basic Care unit participate in the Medicaid program. However, in discussions with representatives of the Department of Human Services, it was noted that due to the definitions provided for in federal regulations, the Basic Care unit is not eligible to participate in Medicaid. The Basic Care unit is defined as a public institution while the Skilled Care unit is defined as a medical institution. Public institutions are not allowed to participate in the Medicaid program.

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Exempting the Veterans' Home from Medicaid Limits

The Veterans' Home's Skilled Care unit is participating in the Medicaid program. The Department of Human Services (DHS) determines the rates for each nursing facility participating in the Medicaid program. These rates are based on information obtained from the facility's cost reports. The determination of the rates is the sum of four components – Direct Care, Other Direct Care, Indirect Care, and Property. With the exception of the Property rate, DHS establishes an upper limit rate for the cost categories. Additional information regarding the nursing home payment program and explanation of the cost categories is identified in Appendix F.

Based on a review of information provided by DHS, the Veterans' Home's actual costs exceed the upper limits established by DHS. The Veterans' Home uses general funds to pay for the amount of costs which exceed the rates paid by Medicaid and private pay individuals. This is an advantage the Veterans' Home has over other nursing home facilities who, if they are over the upper limits, must reduce expenditures or raise additional moneys through private room rates to pay the additional costs. The table below identifies the upper limits established by DHS and the amount that the Veterans' Home's cost exceeds the upper limits.

Table 2						
Nursing Home Facility Upper Limits Compared to Veterans' Home Skilled Care Rates ¹						
	Fiscal Year 2000			Fiscal Year 2001		
Cost Category	Upper Limit Rate	Veterans' Home Cost	Amount over Limit	Upper Limit Rate	Veterans' Home Cost	Amount over Limit
Direct	\$68.53	\$74.31	\$5.78	\$78.99	\$74.49	NA
Other Direct	\$13.16	\$18.30	\$5.14	\$13.72	\$20.43	\$6.71
Indirect	\$30.83	\$48.59	\$17.76	\$32.93	\$48.85	\$15.92
Property	NA	\$11.85	NA	NA	\$14.08	NA
¹ Rate information obtained from DHS. Amounts identified are daily rates per resident.						

As seen by the table above, the Veterans' Home was over the upper limit in all three cost categories for fiscal year 2000 and over on two of the three cost categories for fiscal year 2001. If the Veterans' Home's costs were all under the upper limits, no general funds would need to be expended because all costs associated with the Skilled Care unit would be paid for by Medicaid and private pay residents. Rate equalization applies to the Veterans' Home and private pay individuals can be charged no more than the Medicaid rate (except in certain situations such as paying for a private room).

In discussions with representatives of DHS, an alternative was identified which would result in additional Medicaid and private pay dollars being received by the Veterans' Home and thus, significantly reduce the amount of general funds the Veterans' Home would need. The

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alternative would be to have the Veterans' Home in a class of facility by itself which would result in the Veterans' Home not being subject to the upper limits established by DHS. Thus, there would be two classes of nursing facilities in the state – those that are owned and operated by the government (Veterans' Home) and those that would not be government owned. In this scenario, a different payment process could be used for the Veterans' Home which would allow all costs incurred to be included in the rates paid for by Medicaid. Since the Medicaid rates would increase, the Veterans' Home would also need to raise the rates of private pay residents to maintain compliance with Medicaid requirements.

Using the cost information provided by DHS and based on discussions with how the alternative could work, an approximate amount of general fund savings was determined using information from fiscal years 2000 and 2001. The difference in the upper limits and the Veterans' Home rates were used along with the number of Medicaid and private pay days of care provided by the Veterans' Home. For the Other Direct and Indirect cost categories, the difference in the upper limit and the Veterans' Home rate was multiplied by the number of Medicaid and private pay days of care, as there is no multiplier involved with these two cost categories. However, the Direct cost category does use a multiplier (or case mix weight) which is dependent upon the classification of the resident (the more care required, the higher the multiplier is). Due to this, the number of days of care provided by the Veterans' Home by classification had to be identified. Based on our review, the amount of general fund savings for the Veterans' Home, if they were not subject to the upper limits, would have been approximately \$650,000 in fiscal years 2000 and 2001. Appendix G provides a detailed description of how this amount of general fund savings is computed. This general fund savings would include both an increase in Medicaid funds and an increase in special funds (private pay residents). For this alternative to work, DHS would incur additional costs for the state's match of additional Medicaid payments (approximately 30%). In the analysis performed, DHS would have been required to pay approximately \$100,000 in general funds. Thus, if this alternative was implemented and other areas remained relatively constant, it could result in over \$550,000 general fund savings in future bienniums.

The alternative identified does have advantages and a disadvantage, each of which is identified in the table on the following page.

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Table 3 Advantages and a Disadvantage of an Alternative for Medicaid Funding	
Advantages	Disadvantage
<i>Maximize revenue and reduce general fund spending</i> <ul style="list-style-type: none">Approximately \$550,000 general fund savings per biennium for the state (assuming care and costs remain relatively stable). <i>No significant changes to the Veterans' Home's operations</i> <ul style="list-style-type: none">The alternative is only a funding source change and would not impact the level of care provided to residents.	<i>Increase in private pay rates</i> <ul style="list-style-type: none">Per the Veterans' Home, approximately 50% of the 38 beds in the Skilled Care unit are private pay. In fiscal year 2001, the per day increase for a private pay resident would have been approximately \$23 per day.

The table above does identify a disadvantage to the alternative. However, because of the requirements within the Medicaid payment process (Medicaid is the payor of last resort) the actual amount paid by residents at the Veterans' Home would still be less than what is paid by residents in other nursing home facilities. This is due to the fact that the amount paid by residents is the difference between the private pay rate less any VA per diem received by the Veterans' Home (as of December 2001, the VA per diem was \$53.17 per day for skilled care). In addition, if the VA per diem were to increase the amount paid by residents would decrease.

Recommendation 3-2

We recommend the Veterans' Home discuss with the Department of Human Services the process involved in having the Veterans' Home as a separate class of nursing facility not subject to the upper limits established for the Medicaid case-mix payment system, and present the process, advantages, and disadvantages of such a change to the Legislative Assembly for their consideration.

Management's Response

Agree

The North Dakota Veterans Home will initiate discussions with the Department of Human Services.

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Improving the Basic Care Rate Schedule

North Dakota Century Code (NDCC) Section 37-15-14.1 identifies that the Administrative Committee on Veterans' Affairs may establish a membership contribution to be paid by residents of the Veterans' Home. The rate must be based on the resident's adjusted income, established using a formula that ensures equity and dignity, and cannot exceed 49% of the average daily per-member cost. According to NDCC, a resident's adjusted income is to include all moneys received less amounts received as service-connected compensation, moneys earned during authorized leaves from the Veterans' Home, and moneys expended by the resident for other medical care or treatment or for medications. Membership contribution rates, or rent amounts, are established by the Administrative Committee for Basic Care residents only.

The contribution rate structure used by the Veterans' Home has 52 income levels for determining the rent a resident must pay. The annual income levels are set up in \$250 increments with \$500 to \$749 being the lowest income level where a rate is charged, and \$13,000 to \$13,249 being the highest income level. Residents with annual income less than \$500 do not pay a rate and residents with annual income over \$13,249 will be charged at the maximum rent amount.

Based on a review of the contribution rate structure effective November 2000, residents at the lower income levels paid a higher percentage of their income for rent than residents at the higher income levels. A resident with an annual income of \$500 contributed \$360 a year, or approximately 72% of their annual income. A resident with an annual income of \$13,000 contributed \$6,000 a year, or approximately 46% of their annual income. In January 2002, new rent amounts were identified and the lower income levels are still paying a higher percentage of income on rent. Residents at the lowest income level are still paying 72% of their income on rent and residents at the highest income level are now paying approximately 48% of their income on rent.

The rent amounts range from \$30 per month at the lowest income level to \$500 per month at the highest income level. There is no formula to determine how much the rate will increase from one income level to the next. The rate increases for each income level are in inconsistent increments of \$5, \$10, \$15, or \$20 dollars. In the November 2000 contribution rate structure, there were two income levels with the same rent amount.

Per North Dakota Century Code, the rent amount is not to exceed 49% of the average daily per-member cost. Using fiscal year 2001 cost and census information provided by the Veterans' Home, the average daily cost per Basic Care member was \$58.87 per day, which would mean the 49% limit would be \$28.85 per day. Based on the contribution rate structure effective January 2002, the highest membership contribution rate paid by a resident is \$525 a month or \$17.26 a day. This is 29% of the average daily cost per member. There could be significant increases

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in the rent amounts before the 49% limit would not be complied with. However, according to representatives of the Administrative Committee, the Committee would prefer the rents to be lower and not higher.

Based on our review of the rent schedule, we concluded that there is noncompliance with North Dakota Century Code, as no formula exists for establishing the rent amounts and the rent amounts do not appear equitable. Also, additional revenue could be generated if the rent amounts were increased. This, in turn, would reduce the amount of general funds needed by the Veterans' Home.

Recommendation 3-3

We recommend the Administrative Committee on Veterans' Affairs improve the Basic Care rent schedule by:

- a) Complying with North Dakota Century Code Section 37-15-14.1 and ensure rent contribution rates are established using a formula that ensures equity and dignity; and
- b) Significantly raising the rent contribution rates to bring them closer to the limit of 49% of cost to collect a larger percentage of the cost of care for a Basic Care resident.

Management's Response

3-3(a)

Agree

The Administrative Committee on Veterans Affairs will review the rent contribution to insure equity and dignity.

3-3(b)

Disagree

The 49% rate is an arbitrary maximum and not necessarily a goal to be met.

Improving Financial Affidavit Information

For Basic Care, the rent charged residents is based on the residents' net income. The Veterans' Home uses a financial affidavit, or financial statement, to obtain the necessary income and expenditure information from residents. This financial affidavit is required to be completed when a resident is admitted to the Veterans' Home and is to be reviewed annually. The resident signs the affidavit acknowledging the failure to disclose full income information can be grounds for dismissal from the Veterans' Home.

When the financial affidavit is completed by the resident, the information provided is rarely, if ever, verified by the Veterans' Home to determine the accuracy of the information. Since our request for access to tax records for performance audits in similar circumstances has been denied by the Tax Commissioner, we were unable to perform a complete test on the accuracy of information provided by residents. However, certain residents at the Veterans' Home also work and receive payment from the Veterans' Home. We reviewed 10 resident workers' income earned from the Veterans' Home, five each from fiscal years 2000 and 2001, and compared the income to the information identified by the resident on the

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financial affidavit. We determined that five of the ten residents reviewed did not fairly represent their income on the financial affidavits or the Veterans' Home did not properly identify income of the resident once the financial affidavit was completed (for example, one resident completed the financial affidavit and started working for the Veterans' Home approximately two weeks later and the Veterans' Home did not recognize this income in computing the rent amount). If proper income had been reported by these residents or identified by the Veterans' Home, the Veterans' Home could have generated an additional \$7,700 in rental income.

In a review of the financial affidavits, we noted that changes were made on the affidavits without being initialed or dated by residents and/or the individual making changes. Thus, we were unable to determine when or who made changes to the information on the affidavit. North Dakota Administrative Code Section 86-03-02-05 requires that each resident's finances be reviewed annually. In tests performed in this area, we identified three instances (43%) in which the resident's finances were not reviewed annually.

Recommendation 3-4

We recommend the Veterans' Home implement controls related to resident financial affidavits. At a minimum, the Veterans' Home should:

- a) Ensure compliance with North Dakota Administrative Code by conducting annual reviews of resident finances;
- b) Periodically verify the information provided on the financial affidavits; and
- c) Properly document all changes made to affidavits.

Management's Response

Agree

The North Dakota Veterans Home will implement controls of residential aid and financial affidavits.

A) The North Dakota Veterans Home will comply with the Administrative Code by conducting an annual review.

B) The North Dakota Veterans Home will verify the information.

C) The North Dakota Veterans Home will document changes made on the affidavits.

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Making Changes to the Charging of Rent

The Veterans' Home has established an informal policy relating to how rent will be charged to residents when the residents are away from the Veterans' Home. Residents who are away from the Veterans' Home on a pass (4 days or less) will be charged their rent amount just as if they were at the facility. Residents who are away from the Veterans' Home on leave (five days or more) may or may not be charged rent. The Veterans' Home will not charge residents rent for the first 15 days of leave. This is based on an accumulated total and does not include time away from the Veterans' Home on a pass. Thus, if a resident were to be gone for two separate 10 day leaves, the resident would not be charged rent for the first 15 days but would be charged rent for 5 days starting with the 16th day. Also, when a resident is away from the Veterans' Home on a leave basis, the federal per diem is not being received for the resident (the federal per diem is still received if the resident is away from the Veterans' Home on a pass). Based on discussions with other care facilities in the state, residents are charged their rent regardless of whether they are at the facility or not.

Recommendation 3-5

We recommend the Veterans' Home charge residents rent for all days the residents are on a pass or non-medical leave.

Management's Response

Agree

The Administrative Committee on Veterans Affairs will review this policy for the rent collections.

Improving the Collection Process

North Dakota Administrative Code (NDAC) Section 86-03-02-03 states that residents are to make all payments within 30 days following the month in which the charge was incurred. In review of a sample of 34 resident rent charges and payments, we noted 14 residents (41%) who did not make payments within 30 days.

In review of information, we also noted that the Veterans' Home had a relatively large amount of aged accounts receivable. In May 2002, we noted 16 Basic Care accounts totaling over \$3,700 that were over 6 months past due. In April 2002, we noted 5 Skilled Care accounts totaling \$42,000 that were over 6 months past due. While it was noted that minimal payments were being made on certain accounts, certain residents were allowed to accumulate very large balances prior to a formal process being followed. For example, we noted one former resident owed the Veterans Home over \$16,000.

Recommendation 3-6

We recommend the Veterans' Home establish additional controls pertaining to the collection of rents. This should include:

- a) Ensuring compliance with North Dakota Administrative Code Section 86-03-02-03 by having residents make payment within 30 days following the month in which they were incurred or take the appropriate action to modify this Administrative Code section; and**
- b) Pursuing past due accounts in a timely manner.**

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Management's Response

Agree

A) The North Dakota Veterans Home will submit a change to the Administrative Code as it relates to the thirty day policy.

B) The North Dakota Veterans Home will pursue past due accounts in a timely manner.

Making Improvements to Commandant's Custodial Fund

The Commandant's Custodial Fund was established to account for donations received by the Veterans' Home as well as to account for the moneys that residents have deposited with the Veterans' Home. Through a review of a sample of transactions in the Commandant's Custodial Fund, there are changes necessary to improve the methods used to account for residents' moneys and how donated funds are used. We noted that the Veterans' Home commingles resident moneys with non-resident moneys and has not paid residents all interest earned on the residents' deposits. We also noted that the Veterans' Home did not use donated funds for the specific purposes for which the donated funds were given.

Changing the Accounting of Resident Funds

While one checking account is used for donated moneys received by the Veterans' Home and resident moneys deposited with the Veterans' Home, the Veterans' Home does use an accounting system which tracks the information separately. However, because the moneys are commingled in one checking account, the interest that is earned on the checking account cannot be properly accounted for by the Veterans' Home. Rather than pay out all interest earned, the Veterans' Home uses a formula (resident's month end balance times .005 divided by 365) to distribute interest. This formula was developed based on discussions between the Veterans' Home and the local bank at which the checking account is maintained. Since this formula is used to distribute interest, more interest is earned than what is distributed and the Veterans' Home has now accumulated over \$5,000 in interest from resident and donated funds.

In an attempt to generate additional interest, the Veterans' Home took \$40,000 out of the checking account and placed it into a certificate of deposit. However, how much of the \$40,000 is resident money or donated moneys is not specifically identified by the Veterans' Home. We determined that during calendar year 2001, the Commandant's Custodial Fund was comprised of approximately 38% resident funds. Of the interest earned on the checking account and certificate of deposit during this same time period, approximately 14% of interest earned was paid to the residents. In addition, the Veterans' Home took \$50,000 of resident funds and placed it into a passbook account in February 2001. All interest earned on this account has been maintained in the account and not properly distributed to residents. At the end of calendar year 2001, approximately \$1,500 in interest was accumulated in this account.

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Title 38 of the Code of Federal Regulations Section 51.70 states that the facility management must deposit any residents' personal funds in excess of \$100 in an interest bearing account that is separate from any of the facility's operating accounts and credits all interest earned on resident's funds to that account. It also states that the accounting system used to account for the resident moneys must preclude any commingling of resident funds with facility funds or with the funds of any person other than another resident. The Veterans' Home is not only in noncompliance with federal regulations, but also appears to not be fulfilling their fiduciary duties and responsibilities which are assigned when the Veterans' Home accepts resident moneys.

Recommendation 3-7

We recommend the Veterans' Home improve the accounting of resident funds deposited with the Veterans' Home by:

- a) Complying with the Code of Federal Regulations and not commingling resident funds with other non-resident funds by establishing a separate checking account only for resident funds; and
- b) Paying residents all the interest that is due to them by allocating interest on a pro-rata basis.

Management's Response

Agree

The North Dakota Veterans Home will keep the accounts separate. Interest earned on resident accounts will be paid to them. We will compute retroactively all interest due.

Using Donated Funds for Intended Purposes

North Dakota Century Code (NDCC) Section 37-15-21 states that gifts, donations, or bequests received or accepted by the Veterans' Home must be used for the specific purposes for which they were given or donated. The Veterans' Home uses a number of subsidiary donation accounts in their internal accounting system to assist in accounting for donations received and for spending donated moneys. For example, subsidiary accounts have been established for donations received for activities, decorating, Christmas, and the patio ("gazebo"). In a limited review of a sample of transactions involving selected subsidiary accounts, we noted instances where donated funds were not used for the specific purpose for which they were donated. Examples include:

- Two donation accounts established for library projects, one for the 2nd floor library and one for the 3rd floor library, were closed after the projects were completed and \$7,216 was transferred to the decorating account. Thus, moneys specifically donated for the library projects were used for purposes other than the library projects.
- The donation account established for the "gazebo" loaned \$3,955 in November 2001 to the donation account established for equipment. This loan did not appear to be paid as of the end of May 2002. Thus, moneys specifically donated for the "gazebo" project were used for purposes other than the "gazebo" project.

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- The donation account established for decorating paid two expenditures for the “gazebo” project (total \$5,125). The “gazebo” account subsequently paid back the “loan” to the decorating account.
- The donation account established for decorating paid for two office chairs that are located in employee offices (total \$260) as well as paying for a used couch that sits in the employee lounge (total \$400).

Using donated funds to make loans or to pay expenses of other projects, which differ from the specific purpose for which the moneys were donated, is inappropriate and results in noncompliance with North Dakota Century Code.

Recommendation 3-8

We recommend the Veterans’ Home comply with North Dakota Century Code Section 37-15-21 and ensure that gifts, donations, and bequests are used for the specific purposes for which they were given or donated.

Management’s Response

Agree

The North Dakota Veterans Home will comply with North Dakota Century Code 37-15-21. Revised rules and procedures will be written.

Improving the Use of Appropriated Funds

During the preliminary work for this audit, an analytical review of expenditures identified bonus payments being made to employees from the operating line item. In this review, we also noted appropriated funds being used for inappropriate purposes. We noted that all payments used the same object code (2910 – “Awards, Rewards, and Prizes”) and during fieldwork, 50 expenditures were reviewed in this area.

Making Changes to Bonus Payments to Employees

During the review of 50 expenditures, 22 were noted as being payments made to employees out of the operating line item for various amounts of \$75, \$100, \$150, \$250, and \$500. The Veterans’ Home identified these payments as bonus payments for “sign-on” bonuses (paid to new employees) as well as bonuses paid to employees for recruiting new employees. In our audit time period, we identified \$6,300 of bonus payments paid from the operating line item (bonus payments made from October 28, 1999 to June 11, 2001). The financial audit issued for fiscal years ending 2000 and 2001 noted that bonus payments were inappropriately paid out of the operating line item.

Office of Management and Budget (OMB) Policy 101 identifies that the state is required by law to withhold payroll taxes on compensation paid when an employer-employee relationship exists. The policy also states that this would preclude making payments to individuals from operating expenses where there is an employer-employee relationship. Thus, the Veterans’ Home is in noncompliance with OMB policy. We also identified the Veteran’s Home did not appropriately withhold applicable payroll taxes from these bonuses and there were no 1099’s issued to

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employees for these payments. The Veterans' Home should notify the applicable federal and state entities, such as the Internal Revenue Service and the Office of the State Tax Commissioner, that appropriate payroll taxes were not withheld from payments to employees. As required by our auditing standards, if the Veterans' Home does not immediately notify these entities, our office will need to contact the applicable entities directly.

Recommendation 3-9

We recommend the Veterans' Home withhold appropriate payroll taxes for payments to employees and immediately notify the applicable federal and state entities of the lack of withholding appropriate payroll taxes from previous bonus payments to employees.

Management's Response

Agree

The North Dakota Veterans Home will notify the applicable federal and state entities of the lack of withholding appropriate payroll taxes. The Commandant will issue a letter to each affected employee. The Home will be responsible for all fines or costs incurred.

Making Improvements to How Appropriated Funds are Used

During the review of expenditures coded to Object Code 2910, we noted 18 expenditures of the remaining 28 expenditures were not bonus payments to employees, but used appropriated funds for inappropriate uses. Examples identified included:

- The Veterans' Home used appropriated funds to pay for the meals of employees at an employee service recognition banquet;
- The Veterans' Home used appropriated funds to pay for employee meals and employee take out orders from a local pizza vendor; and
- The Veterans' Home used appropriated funds to pay for gift certificates that were used as prizes awarded by the Veterans' Home to employees if they met certain criteria (such as all employees who did not call in sick in a month had their name entered in a drawing for the chance at a \$150 gift certificate).

While the expenditures identified as being inappropriate were not a large dollar amount in total (approximately \$1,800), this amount was identified through a sample of expenditures and thus, the actual amount of inappropriate expenditures is likely larger than the amount identified. The funding sources for these expenditures included general, federal, and special funds. Based on a review of Attorney General Opinions regarding the use of public funds, it was noted that based on constitutional provisions, the government may not use public moneys for a private purpose. Thus, the Veterans' Home use of appropriated funds for these nonpublic uses appears to result in noncompliance with the Constitution.

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Recommendation 3-10

We recommend the Veterans' Home comply with constitutional provisions and ensure that appropriated funds are used for expenditures that directly relate to the purpose of the Veterans' Home and are within the Veterans' Home statutory responsibilities.

Management's Response

Agree

The North Dakota Veterans Home will comply with constitutional measures and the statutory responsibilities for the North Dakota Veterans Home.

Improving the Accounting for Projects

Through a review of a sample of expenditures, there are changes necessary to improve how funds are spent for public improvement projects as well as how project expenditures are accounted for. We noted that the Veterans' Home is in noncompliance with North Dakota Century Code requirements and legislative intent for certain public improvement projects. We also noted that the Veterans' Home is not sufficiently tracking expenditures.

Complying with Public Improvement Requirements

The Veterans' Home received approval for a new sprinkler system during the 1999 Legislative Session. Per budget documentation, the project was to use only special and federal funds. Review of expenditures for this project identified \$9,000 of general funds was used. Thus, the Veterans' Home is in noncompliance with legislative intent for this project.

The Veterans' Home received approval for an all seasons facility during the 1997 Legislative Session. Per budget documentation, the project was approved for \$76,000. Review of expenditures for this project identified that the Veterans' Home spent approximately \$135,000 from donations solicited by the Home for this project (identified as the "gazebo"). Of this amount, \$75,000 was received from the Administrative Committee on Veterans' Affairs who used the interest earned on the Post War Trust Fund to make the donation. We also identified approximately \$39,000 of special and federal funds used for the project. The total amount that we identified for the project (\$174,000) is a conservative and minimum amount spent on the project, as the Veterans' Home did not adequately account for expenditures that were paid for with special and federal funds. Also not included in the total amount are the costs incurred of the employees who worked on the project during their normal working days. The time spent by these individuals was not specifically maintained by the Veterans' Home. Noncompliance and other issues identified with the project include:

- The Veterans' Home did not enter into a formal contract with the contractor selected for work. Thus, there was no documentation relating to what the contractor would be paid including a maximum amount, the insurance requirements that were required, liability issues, or the time period for which services were to be provided.

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- The Veterans' Home did not receive approval from the Legislative Assembly, or the Budget Section of Legislative Council, when the project was significantly changed. North Dakota Century Code (NDCC) Section 48-02-20 states that a state institution may not significantly change or expand a building construction project beyond what has been approved by the Legislative Assembly unless the Legislative Assembly, or Budget Section of the Legislative Council, approves the change or expansion of the project or any additional expenditure for the project. We concluded that a significant change did occur since the project was approved for \$76,000 and ended up costing more than \$174,000. Thus, the Veterans' Home is in noncompliance with North Dakota Century Code.
- The Veterans' Home did not formally bid, and appears to have followed no bidding procedures, in the selection of the contractor. NDCC Section 48-01.1-03 identifies a formal bidding requirement for building improvement projects estimated to cost in excess of \$100,000. Based on a review of subcommittee meeting minutes, it appears that the Veterans' Home was aware the project would exceed \$100,000 and thus, is in noncompliance with North Dakota Century Code.
- The Veterans' Home did not procure plans, drawings, and specifications from a licensed architect or a registered professional engineer. NDCC Section 48-01.1-04 states that if a contract for construction of a public improvement is estimated to be over \$100,000, the state entity is to procure plans, drawings, and specifications for the work from a licensed architect or a registered professional engineer. The Veterans' Home is in noncompliance with this North Dakota Century Code requirement.

While we feel the "gazebo" that was built directly on to the Skilled Care unit is a positive addition to the Veterans' Home and appears to be appreciated by the residents, the Veterans' Home did not comply with necessary state laws and legislative intent. Also, due to the way in which the process was handled (no contract, no bidding, etc.), additional costs may have been incurred by the Veterans' Home that could have been avoided had an adequate process been used. Based on discussions with representatives of the Veterans' Home and members of the Administrative Committee on Veterans' Affairs, the process for the project was the responsibility of the Commandant who appears to have handled the selection process, design work, and other areas of the project.

Recommendation 3-11

We recommend the Veterans' Home comply with legislative intent and state law requirements related to public improvement projects by:

- a) Ensuring projects do not exceed legislatively approved amounts;
- b) Complying with NDCC Section 48-02-20 by not significantly changing or expanding a building construction project beyond

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what has been approved by the Legislative Assembly unless proper approval is obtained;

- c) Complying with NDCC Section 48-01.1-03 by following bidding requirements for projects estimated to cost over \$100,000; and
- d) Complying with NDCC Section 48-01.1-04 by procuring plans, drawings, and specifications from a licensed architect or a registered professional engineer for projects estimated to cost over \$100,000.

Management's Response

Agree

The North Dakota Veterans Home will comply with North Dakota Century Code 48-02-20, 48-01.1-03 and 48-01.1-04.

Using Project Numbers

The Statewide Accounting and Management Information System (SAMIS) allows state entities to use project numbers to track expenditures by projects. The Veterans' Home does not assign or use project numbers for projects or other improvements made at the Veterans' Home. As a result, project costs are not easily identified and an efficient and effective monitoring tool is not being utilized. Since project numbers are not used, determining accurate project amounts would require the Veterans' Home to identify all vendors/contractors used for the project, identify all expenditures to the specific vendors/contractors, and determine whether expenditures are for the project or for another purpose. In an attempt to identify a cost of the "gazebo" project, we performed a similar review, but representatives of the Veterans' Home were unable to determine the project, improvement, or other work the selected expenditures were related to.

Recommendation 3-12

We recommend the Veterans' Home assign and use project numbers on the Statewide Accounting and Management Information System.

Management's Response

Agree

The North Dakota Veterans Home will assign and use project numbers on all purchases pertaining to projects.

Improving Areas in Procurement

Through a review of expenditures related to procurement, there are changes necessary to improve the efficiency and effectiveness in the procurement and contract areas. We noted the Veterans' Home is in noncompliance with procurement laws, policies, and procedures. We also noted the Veterans' Home is not including the necessary language in their contracts and the Veterans' Home is not adequately monitoring contracts.

Ensuring Compliance with Procurement Requirements

In tests performed on a sample of expenditures, we noted the Veterans' Home was in noncompliance with state laws and policies relating to the procurement of goods. Examples identified include:

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- State agencies, unless delegated certain authority, are required to use the State Procurement Office for the bidding and awarding process when the purchase of an item is over a certain dollar amount (\$1,000 during our time period). We noted that the Veterans' Home did not properly use the State Procurement Office for the bidding and awarding process. All ten expenditures reviewed that were applicable to this area were inappropriately handled by the Veterans' Home.
- State agencies are required to purchase items contained on Term Contracts. These contracts are competitively bid by the State Procurement Office and restrict the purchase of certain items to specific vendors. We noted that the Veterans' Home did not properly purchase items off of Term Contracts. Of the ten expenditures reviewed that were applicable to this area, we noted the Veterans' Home did not appropriately use Term Contracts in four instances. In addition, due to the fact that the Veterans' Home makes a number of purchases for food that are covered under Term Contracts, we also conducted a comparison of prices paid by the Veterans' Home for food purchases to prices on Term Contracts. In a review of seven payments to vendors (ranging from \$1,500 to \$4,155) we noted that the Veterans' Home could have saved over \$575 if the Term Contract prices would have been obtained.
- Per State Procurement's purchasing manual, state agencies are required to use purchase orders when purchasing items in excess of \$100. The Veterans' Home does not appropriately use purchase orders for any of the purchases that it makes. All 42 expenditures we reviewed for purchases over \$100 did not have purchase orders used.
- In our review of expenditures, we noted purchases were made by the Veterans' Home from an employee of the Veterans' Home. The employee acted in the capacity of a salesperson for the company from which the purchases were made. There were no quotes obtained or bidding process used by the Veterans' Home for the purchases made from this employee. These purchases appear to be related party transactions and we identified over \$3,800 of related party transactions during our time period.

Based on discussions with the representatives of the Veterans' Home, it appears that the Veterans' Home was unaware of the procurement requirements that state agencies are required to follow. In fact, the accountant responsible for the payment process was not even aware that a purchasing manual existed prior to the current revised manual being issued in January 2002.

Recommendation 3-13

We recommend the Veterans' Home establish controls to ensure compliance with all procurement laws, policies, and procedures. At a minimum, the Veterans' Home should:

- a) Use the State Procurement Office for bidding when required;

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- b) Use Term Contracts established by the State Procurement Office;
- c) Properly document all bids/quotes for related party transactions; and
- d) Use purchase orders when required.

Management's Response

Agree

A.) The North Dakota Veterans Home will work with the State Procurement Office when required.

B.) The North Dakota Veterans Home will use Term Contracts established by the State Procurement Office. Also we will utilize the Federal GSA Contracts we are authorized to use through our affiliation as a partner with the United States Department of Veterans Affairs.

C.) The North Dakota Veterans Home will keep each bid separately and document all quotes and bids.

D.) The North Dakota Veterans Home will use purchase orders except on the purchases that are not required to through use of State Credit Card.

Improving Contract Language and Contract Monitoring

The Veterans' Home was requested to provide a list of contracts that were entered into or were effective during our time period. In a review of the contracts provided by the Veterans' Home, we noted none of the contracts contained a non-appropriation clause. A March 18, 1977 Attorney General's Opinion established the necessity of non-appropriation clauses. A non-appropriation clause authorizes termination by the state entity at an earlier date than the term of the contract if adequate funds are not appropriated or obtained. We also noted that 18 of the 19 contracts identified by the Veterans' Home did not contain specific ending dates. We noted two contracts were originally written in 1991 and apparently have not been updated since that time.

In a review of contract payments, we noted duplicate payments were made to vendors. While these duplicate payments were identified by the Veterans' Home and subsequent payments to vendors were adjusted, this is an indication of poor contract monitoring and payment processes. In discussions with representatives of the Veterans' Home, it was noted that the contract monitoring process at the Veterans' Home is very decentralized with each division responsible for monitoring the contracts related to them. We noted a lack of monitoring and adequate documentation with services being billed pursuant to one of the contracts. This may lead to inaccurate billings or hours being billed for services when such services are not being provided.

Recommendation 3-14

We recommend the Veterans' Home establish controls for entering into contracts and for contract management which should include, at a minimum:

- a) Ensuring contracts include the necessary elements of a contract such as non-appropriation language, length of contracts, and payment information; and

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- b) Monitoring contracts to ensure services are provided and paid for in conjunction with stated contract terms.

Management's Response

Agree

The North Dakota Veterans Home will involve the Attorney General's office on all contract forms for approval.

Automating the Skilled Care Accounting Process

While the accounting for the Basic Care unit census information, billing information, and receipting of payments is essentially an automated or an electronic process, the accounting for similar information for the Skilled Care unit is not. We noted that both a manual process and automated process were used for skilled care census figures, billing information, and receipting purposes. The information that is maintained on computer (automated process) is very similar to information that is being maintained manually (handwritten). While the manual process provides more detail and accounts for additional information (such as receipting), the manual functions being performed could be handled through an automated or electronic process. This would reduce the duplication of effort and work and should provide for a more efficient and effective accounting process for Skilled Care information.

Recommendation 3-15

We recommend the Veterans' Home use an automated or electronic process for skilled care census, billing, and receipting purposes.

Management's Response

Agree

The North Dakota Veterans Home will upgrade the accounts receivable addressing items noted by the auditor.

Making Changes to Reimbursement of Mileage

North Dakota Century Code Section 54-06-09 identifies the requirements regarding mileage reimbursement for state employees. The section states that mileage is to be reimbursed at the rate of 31 cents per mile for each mile actually and necessarily traveled in the performance of official duties. Through discussions with representatives of the Office of Management and Budget, a state entity may pay a lower amount than 31 cents per mile, but a state entity may not exceed this amount. In a review of nine expenditures coded to in-state mileage, we identified that the Veterans' Home had reimbursed employees at a rate of 40 cents per mile for three of the expenditures. Thus, the Veterans' Home is in noncompliance with this section of law.

Recommendation 3-16

We recommend the Veterans' Home comply with North Dakota Century Code Section 54-06-09 by reimbursing employees for mileage at a rate that does not exceed the established maximum amount.

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Management's Response

Agree
The North Dakota Veterans Home will comply with established mileage rates.

Establishing Policies in the Accounting, Budgeting, and Financial Areas

In review of information and discussions with representatives of the Veterans' Home, we noted that there are no formal policies established for the facility in the accounting, budgeting, and financial areas. We noted significant informal policies that have an impact on how the Veterans' Home charges and collects rent from residents. For example, the Veterans' Home has an informal policy that residents will not be charged rent for their first 15 days of accumulated leave. In addition, the Veterans' Home has an informal policy that once a resident has accumulated 30 days of leave, the resident will be charged the federal per diem amount which is not being received by the facility when a resident is on leave.

We noted significant account receivable balances that were over six months past due. While representatives of the Veterans' Home identified certain actions taken, there is no formal guidance provided to employees regarding the process to be followed in relation to past due accounts. Also, there is no requirement relating to documenting collection efforts or other actions taken by the Veterans' Home in attempting to collect past due accounts.

In a review of the processes used to prepare and monitor the budget, we noted no formal policies in this area. In addition, no formal policies were identified regarding other financial areas of the Veterans' Home, such as reports to be provided to management to effectively monitor the Veterans' Home's operations.

Recommendation 3-17

We recommend the Veterans' Home develop formal policies and procedures for accounting, budgeting, and financial management functions to provide clear guidance and ensure consistent application.

Management's Response

Agree
The North Dakota Veterans Home will develop formal policies and procedures for accounting, budgeting and financial management functions to provide clear guidance and ensure consistent application.

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Closing “Petty Cash” Account

The Veterans’ Home has established a checking account at a local bank that is used to pay expenditures. The Veterans’ Home has identified this checking account as a “petty cash” account, even though it is not an actual petty cash fund. The Veterans’ Home attempts to maintain a balance of \$5,000 in this checking account. When the account requires additional funds, a check from the state’s accounting system is obtained and deposited into the checking account. Based on discussions with representatives of the Veterans’ Home, this account was established because a check from the state’s accounting system could not be promptly obtained to pay bills before they were due. We noted the account was used for a variety of expenditures including payments to vendors and paying bonuses to employees.

The financial audit for fiscal years ending 2000 and 2001 noted that this checking account had not been reconciled since January 2001. In tests performed on transactions related to the use of this checking account, we noted several instances in which expenditures were not fully supported by adequate documentation or that the Veterans’ Home had no supporting documentation for the expenditures. The establishment of a state procurement card should help alleviate the need for this account which is not properly accounting for transactions.

Recommendation 3-18

We recommend the Veterans’ Home take the appropriate action to close the “petty cash” checking account once it has been properly reconciled.

Management’s Response

Agree
The North Dakota Veterans Home will close the “petty cash” checking account.

Staffing and Level of Care

Introduction

One of the goals of this performance audit was to answer the following question:

“Is the Veterans’ Home reasonably staffed?”

An intricate part of accomplishing this goal was to determine whether the care provided to the residents was proper. In order to accomplish this goal, a formal Request for Proposal was sent to 12 organizations that sought competitive bids from consultants with expertise in the area of long-term care. The consulting firm of Pathway Health Services was selected through this process. The consultant noted that the North Dakota Veterans’ Home campus is a good facility and that most divisions are providing an adequate level of care. However, Pathway Health Services did note that due to a relatively soft census in the Basic Care unit (occupancy rate of approximately 83% in fiscal year 2001), the acuity level (level of care required) for Basic Care is higher than industry standards. In other words, residents are being cared for at more dependent levels than the licensure rules for Basic Care suggests. The improvements noted by the consultant are discussed in this chapter and improvements of less significance were communicated to management in a separate letter.

Level of Care

Quality of care was assessed by Pathway Health Services through a comprehensive quality assessment in both the skilled and basic care units. While the facility as a whole is regarded as striving to achieve a high standard of care and service, Pathway notes the facility is deficient in some aspects of auditing and monitoring of systems.

Skilled Care Unit

Pathway notes that the 38 bed Skilled Care unit services provided by the Veterans’ Home are in line with industry norms. All residents are currently at an appropriate level of care. The acuity level of the resident mix ranges from a fairly low level of activities of daily living needs to residents that require two person assists in a number of care areas. For the most part, the clinical documentation systems are in place to adequately monitor and care for the resident population it serves.

Pathway concludes that the resident population does differ from other care settings primarily in the aspect related to addiction and psychiatric services, but not to such a degree that it isn’t easily comparable to other long term care settings. In addition, the facility maintains registered professional staffing levels such, that it could care for higher acuity residents.

Basic Care Unit

To achieve the highest level of resident satisfaction and practical level of functioning, Pathway notes that it is necessary to assure that the assessments of residents for admission and continuous stay considers the services available to meet the resident health, safety, social and residential needs. The Basic Care unit has unique aspects of service

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due to its physical plant, community campus setting including skilled care services and specialized social setting.

Pathway's level of care review process included:

- A functional assessment of resident service needs;
- A 10% audit of resident working charts to verify services delivered; and
- An evaluation of the physical plant to assess resident evacuation options.

Pathway's evaluation entailed a review of the resident's abilities in mobility, and levels of assistance required with bathing, dressing, grooming, toileting, eating, medication administration, housekeeping and laundry services. Most residents received assistance with medications and all received housekeeping and laundry services. Pathway notes a significant consideration with the assessment is the ability of the resident to evacuate the building independently and considerations toward resident behavior that requires redirection. The functional assessment performed by Pathway noted the following:

- Four residents were considered at or exceeding the maximum level of service recommended for delivery in a Basic Care facility. In other words, four of the residents in Basic Care require more services than are allowed by the licensure rules for Basic Care. Following the on-site visit by Pathway, representatives of the Veterans' Home stated that three of these residents were relocated and one resident was assessed as appropriate for Basic Care services.
- Twenty residents were found to have more than three Activities of Daily Living (ADL) assistance needs. These areas include assistance with bathing, assistance with grooming, assistance with dressing, assistance with transport, and some assistance with toileting.
- Twenty residents, not necessarily the same as those requiring assistance with ADL, need support of staff for redirection (intervention is required of another person to assist a resident who is physically capable of maneuvering through the building, but requires assistance because of the resident's inability to comprehend and follow instructions).
- Nineteen residents have needs related to mobility, some of which are required due to assistive devices used such as walkers, wheelchairs, and canes. In considering mobility, redirection needs, and ADL assistance needed, there are residents who are vulnerable in the event that evacuation of the building is required due to an emergency.
- Forty residents would need assistance with evacuation in the event of a fire emergency. Nursing staff would need to evaluate the

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assistance needed and acceptable timetables it would take to evacuate the building.

Pathway notes that the lack of admission and formal discharge criteria has posed a problem for staff members at times. Pathway also notes that with the distinct population served by the Veterans' Home, considerations can be made to best serve those individuals. Residents with higher service needs may be able to receive higher levels of care from outside organizations, like home health care, in order to remain living at the Veterans' Home. Evacuation of residents can be tested and practiced to develop plans to achieve full evacuation of the facility in a timely and safe manner. Programming for those residents requiring redirection could help in the establishment of the plan to create systems that identify and inform residents of the plan in the event of an emergency. Systems for assessment, reevaluation, service delivery, and emergency situations should be established and formalized to provide for the safe and effective service delivery for the residents residing in the Veterans' Home.

Recommendation 4-1

Pathway Health Services recommends that Basic Care residents receiving skilled level services need to establish a relationship with a provider that can meet those needs and supplement the Basic Care services or consider discharge and relocation to a skilled care facility. The four residents identified should begin this process now.

Management's Response

Agree
The North Dakota Veterans Home has completed action on the four cases identified. When a resident actually screens skilled care, we will take all appropriate action as per our licensure as a Basic and Skilled Care Facility.

Recommendation 4-2

Pathway Health Services recommends the Veterans' Home establish a formal policy and procedure for admission, discharge, and continuous stay criteria for the evaluation of appropriateness of residents moving into the Basic Care Facility.

Management's Response

Agree
The North Dakota Veterans Home will improve our policy and procedure on admission, discharge and continuous stay criteria.

Recommendation 4-3

Pathway Health Services recommends the Veterans' Home assess the evacuation capability of the residents. At the time of admission and on a regular basis, assessments should be completed, with a pre-determined protocol for when a resident no longer meets the established criteria. Residents' ability to evacuate can be tested during routine fire drills as well as the annual full facility evacuation. Utilizing and creating a formal documentation system following evaluation from therapy staff after significant changes and hospital returns would satisfy this recommendation.

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Management's Response

Agree

The North Dakota Veterans Home will comply with Federal and State requirements addressing the items noted by the auditors.

Quality Standards

Pathway used a similar survey instrument as the federal government to assess quality standards. In a federal survey, there are approximately 580 potential deficiencies. Pathway's review identified two deficiencies at a level that carries a more serious scope and severity rating that is equated to quality performance measurement in which actual harm occurred to one or more residents related to the deficient practice. One of the two deficiencies was related to failure to assess pain management resulting in a missed resident change in condition. The deficiency was related to notification of mood altering medications being administered. Detailed action plans were provided directly to management for correction steps that could be taken.

Through the review of 11 resident charts, Pathway noted the occurrence of a resident falling down the steps in a stairwell during April 2001. Upon checking the stairwell door for alarm functionality, it was found the alarm was not functioning. In addition, the initial alarm was not audible for all three doors that had access to stairwells. As a result, had this been an actual federal survey, an "Immediate Jeopardy" finding would have been issued. This finding was reported to the Commandant, as well as to a representative of the State Auditor's Office (who was on-site at the time of the Comprehensive Quality Assessment). "Immediate Jeopardy" was finally abated when the Director of Nursing was informed of the situation and the Director of Nursing had the Maintenance Supervisor/Safety Officer maximize the volume level of the alarm and placed an amplifier on the unit.

Pathway noted that the Veterans' Home should use a customized survey to identify resident, family, and employee satisfaction levels to identify and address quality of care, resident services, and other issues. Pathway notes that the surveys should be done annually and information should be used to make improvements where necessary. The focus areas of questions can be further developed to include more division quality concerns, prior survey issues, complaint areas, or other quality measures. Pathway noted that the surveys are presently quite vague and do not offer managerial direction for improvement plans.

Recommendation 4-4

Pathway Health Services recommends the Veterans' Home utilize the Quality Assurance Committee to conduct routine self-assessments of facility programs and systems for identification of potential improvement projects. A focus on safety system audits should be included.

Management's Response

Agree

The North Dakota Veterans Home will have the Quality Assurance Committee review all incident reports. The committee will provide all necessary staff, including the Commandant with the results of their

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review and any recommendations coming from the review. Appropriate action will be taken to ensure the agency responds accordingly. We will also have maintenance follow up with routine maintenance that is scheduled.

Recommendation 4-5

Pathway Health Services recommends the Veterans' Home customize resident, family, and employee satisfaction surveys to identify and measure areas of needed improvement related to resident services and care.

Management's Response

Agree
The North Dakota Veterans Home will redesign our survey instrument addressing items noted by the auditors.

Staffing Levels

As part of the review performed by Pathway Health Services, the staffing levels at the Veterans' Home were compared to industry standards, as well as compared to the type of care provided to residents. This review identified improvements needed in nursing for both the Skilled Care unit and Basic Care unit.

Skilled Care Unit

Pathway notes that the Skilled Care unit consists of 38 residents at a manageable and average level of care. The current staffing levels are high compared with current standards of staffing levels in skilled nursing facilities. Typically, the professional nurse management to resident ratio is 1:50. Currently, the professional nursing positions are heavy, especially on the day shift with two full-time equivalents (FTEs) of Registered Nurses (RN) and half of the Director of Nursing position's time assigned to skilled care. Thus, on this shift the Veterans' Home ratio is 2.5:38. Pathway notes that one FTE of Licensed Practical Nurse (LPN) staff assigned to skilled care appears appropriate for the hands on nursing care. The Certified Nursing Assistant (CNA) to resident ratio is within an expectable range of 1:8-1:10. In the Long Term Care setting, a separate bath aide is not routinely utilized.

Recommendation 4-6

Pathway Health Services recommends the Veterans' Home:

- a) Evaluate the need for the bath aide position and assign resident baths to the CNAs;
- b) Reevaluate the need for a Day Charge RN as the Unit Manager should be able to manage the medical care of 38 residents and supervise the CNAs on the day shift;
- c) Reevaluate the need for the evening LPN position as adding a registered medication assistant to complete the afternoon and evening medication passes (for those residents unable to administer their own medications) to the residents would give the evening RN time to manage the medical care and staff; and
- d) If medication passes are heavy at any given time during the day, look at staggering medication pass times to accommodate this.

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Management's Response

Disagree

The North Dakota Veterans Home will complete a thorough review of our staffing needs on the Skilled and Basic Care units being mindful of current "like" industry standards and the medical requirements of our payers and licensing entities.

The North Dakota Veterans Home has already worked to stagger medication times. The North Dakota Veterans Home will continue to work with times with our pharmacy consultant.

Basic Care Unit

Pathway notes that the Basic Care unit is staffed with a Unit Manager who has supervisory responsibility for the program. The current daily shift staffing includes the following:

Table 4		
Staffing of the Basic Care Unit by Shift		
Day Shift (6:00 AM – 2:00 PM)	Afternoon Shift (2:00 PM – 10:00 PM)	Night Shift (10:00 PM – 6:00 AM)
Unit Manager (responsible for program, work hours overlap two shifts, reports to Director of Nursing)		No Unit Manager
Registered Nurse (1 person, 8 hours)	Registered Nurse (1 person, 8 hours)	
Licensed Practical Nurse (1 person, 8 hours)	Licensed Practical Nurse (1 person, 8 hours)	Licensed Practical Nurse (1 person, 8 hours)
Nursing Assistants (1 person, 8 hours)	Nursing Assistants (1 person, 8 hours)	Nursing Assistants (1 person, 8 hours)

In the review performed, Pathway noted:

- There is a ratio of one nursing staff member per 35 residents on the day and afternoon shift and one nursing staff member per 53 residents on the night shift. The ratios are figured by dividing the resident census by the number of nursing staff. The Unit Manager hours are not used as they do not typically do direct resident care but more management/supervisory type duties. The support of the other divisions is important to the success of the nursing division meeting their necessary duties.
- The nursing division is not overly staffed for the number of basic care residents served. The qualifications and licensure of the staff are at high levels.
- In a Basic Care facility, the need for Registered Nursing credentials is not necessary to the level of care provided at the Veterans' Home. One Registered Nurse during a 24-hour period should meet the needs of the population based on license category (the Veterans' Home has two shifts with a Registered Nurse). The

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Registered Nursing hours could be flexible with hours spent on more than one shift.

- Licensed Practical Nurses could provide the medication administration duties.
- Nursing Assistants can meet the assisted daily living (ADL) needs of the resident and based on the functional assessment, review Nursing Assistants are capable and trained to meet the level of service provided in the Basic Care unit.
- The number of staff on duty throughout a 24-hour period to providing nursing services is adequate.

Recommendation 4-7

Pathway Health Services recommends the Veterans' Home review the staffing levels of the Basic Care unit and:

- a) Implement one shift of Registered Nursing in a 24-hour period to provide those assessment and management pieces that are required for licensure, with Licensed Practical Nursing staff scheduled on each shift and Nursing Assistants initiated to meet the direct needs of the residents;
- b) After the one shift of Registered Nursing is implemented, modify the number of hours provided by each nursing classification to recognize the level of service provided; and
- c) Once the number of hours is modified, assign job duties to better meet the resident needs by utilizing the skills of the Registered Nurse, Licensed Practical Nurse, and Nursing Assistant.

Management's Response

Disagree

The North Dakota Veterans Home will complete a thorough review of our staffing needs on the Skilled and Basic Care units being mindful of current "like" industry standards and the medical requirements of our payers and licensing entities.

Hours Per Resident Day

Pathway notes that labor is one of the most significant expenses in the operations of a long-term care facility. It is also the area where there can be the greatest variations in the expenses of facilities. The Veterans' Home identifies the number of nursing hours for the Skilled Care unit and Basic Care unit but all other divisions do not allocate their hours to the specific unit. Pathway believes the Basic Care residents require approximately the same amount of staff attention in all areas except nursing.

To compare the Veterans' Home's number of hours per resident day, Pathway used an industry standard of the average hours per patient day (PPD) for over 250 similar long-term care facilities. Pathway notes that all of the Veterans' Home's divisions are within industry standards except nursing with Skilled Nursing being over the industry standards (see table on the following page). Veterans' Home staff feel they need to have hours over the industry standard due to Veterans' Affairs regulations, difficult residents they care for, building age, and size of the grounds.

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Pathway feels that these factors are not significant enough to demand staffing levels over the industry standard. The Veterans' Home has a therapeutic program where residents work at the facility for minimum wage. Pathway did not include their hours in the hours per resident day analysis. Since the resident workers perform many job functions that would need to be performed by facility staff if it were not for this program, Pathway believes the actual employee hours per resident day could be higher than industry standards. For example, while the maintenance division is near the industry standard, if the resident workers hours were added, the maintenance division may be higher than the industry standard.

Table 5			
Hours Per Patient Day by Division			
Division	Hours/Patient Day – 2001 Calendar Year ¹	Hours/Patient Day – January to April 2002 ¹	Industry Standard
Administration	0.223	0.240	0.28
Maintenance	0.160	0.141	0.18
Housekeeping/Laundry	0.418	0.401	0.51
Dietary	0.635	0.621	0.74
Activities and Social Services	0.272	0.315	0.37
Total Basic Nursing	0.987	0.960	
Skilled Nursing			
Administration	0.483	0.474	
Nurses	1.223	1.203	0.73
Aides	2.712	2.810	2.24
Productive Skilled Care Ratio ²	3.935	4.013	2.97
¹ Hours identified by the Veterans' Home are actual hours worked (including overtime hours).			
² Includes direct care provided by nurses and aides.			

Recommendation 4-8

Pathway Health Services recommends the Veterans' Home do an in depth review of the nursing division and structure and determine where, in hours or structure, staffing or job duties could be modified to find possible care savings.

Management's Response

Disagree

The North Dakota Veterans Home will complete a thorough review of our staffing needs on the Skilled and Basic Care units being mindful of current "like" industry standards and the medical requirements of our payers and licensing entities.

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Reporting Structure in the Nursing Division

Pathway notes that the Nursing Division lacks a clear chain of command below the Director of Nursing. Pathway noted many nursing staff seemed unclear about exactly who they report to as a direct supervisor. The current organization structure identifies all nursing staff report directly to the Director of Nursing. This structure causes the Director of Nursing span of control to be rather large and makes it difficult for one person to manage. It is important for all staff to have a direct supervisor that monitors their performance on a day-to-day basis and provides needed feedback.

Recommendation 4-9

Pathway Health Services recommends the Veterans' Home restructure the Nursing Division so that the nursing staff in the Skilled Care unit report directly to the Skilled Care Unit Manager and the Basic Care staff report to the Basic Care Unit Manager. The Registered Nurses/Licensed Practical Nurses on the evening and night shifts would be responsible for the supervision on their shifts and provide immediate feedback to staff and provide information to the Unit Managers as needed.

Management's Response

Partially Agree

The North Dakota Veterans Home questions implementation per Pathways recommendations. An updated organizational chart is in process which will delineate responsibility. This will be in-serviced with all nursing staff. The process of reporting to the Basic Unit Manager is already an established routine. We do not have a Skilled Unit Manager, we have a MDS/Care Plan Coordinator and this is addressed in the updated organizational chart.

Employee Satisfaction

During the preliminary work performed on this audit, our office sent surveys to appropriation committee members, members of the Administrative Committee on Veterans' Affairs, all employees of the Veterans' Home, all residents of the Veterans' Home, and past employees of the Veterans' Home. The survey results were also reviewed with Pathway Health Services.

Pathway notes that maintaining positive employee relations is critical not only for staff retention in a very tight labor market, but also for maintaining high levels of quality and staff productivity. Pathway states that in order to achieve positive levels of employee relations, several factors need to be in balance including:

- A clear organizational direction that can result in clear job duties and an opportunity for staff to team up to achieve organizational targets on behalf of the residents;
- A positive climate of supervision in every division, on every shift, every day;
- A formal program to monitor the satisfaction of staff;
- A regular system to monitor staff turnover, sick days, and open positions;

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Staffing and Level of Care

- A well-rounded human resources program that includes fair pay and benefits and contributes to a positive work environment with individual opportunity;
- A formal program of staff recognition and reward for the achievement of organizational goals;
- Strong leadership; and
- Open communication, good listening, and a positive approach to employees.

In Pathway's review of survey results and their work performed, the consultant noted the following:

- The Administrative Committee on Veterans' Affairs and management and staff of the Veterans' Home are all fairly positive about the facility;
- The employees rated the management supervision at 73% which is low.
- There were indications that there is frustration over a lack of organizational leadership and direction;
- Pay is good, about in the middle of the polled group of facilities;
- The benefit set is exceptional; and
- The Commandant does not take full responsibility for knowing what the employee attitude presently is and addressing problem areas.

Recommendation 4-10

Pathway Health Services recommends the Veterans' Home improve employee satisfaction by:

- a) Creating a clear, positive direction for the facility that staff can understand and support;
- b) Implementing a strong program of supervisory enhancement for all supervisors at all levels which should include effective monitoring and measuring, training, coaching, and supervisory role confirmation; and
- c) Developing survey questionnaires to focus on targeted quality areas.

Management's Response

Agree

The North Dakota Veterans Home will re evaluate all policies and procedure relating to employee satisfaction, employee performance, and employee input into our strategic plan, addressing items noted by the auditors.

Resident Satisfaction

Pathway Health Services notes the Veterans' Home does have a formal customer satisfaction measurement program. However, the consultant notes that the questionnaire used in this process needs to be improved to measure targeted areas of concern and to further enhance the relationship between the Veterans' Home and the residents and their families. Pathway notes that residents and families seem to be very

Chapter 4

Staffing and Level of Care

satisfied with the care and services provided at the Veterans' Home and are supportive of the facility.

Recommendation 4-11

Pathway Health Services recommends the Veterans' Home administer a revised customer satisfaction survey on an annual basis that can produce data to be used as specific performance measures for each division and manager. The results of the survey should be used to regularly meet with each manager and work on the issues identified in the survey.

Management's Response

Agree

The North Dakota Veterans Home will re evaluate all policies and procedure relating to customer satisfaction, addressing items noted by the auditors.

Additional Information

Issues Requiring Further Study

Government Auditing Standards requires disclosure of significant issues identified during an audit that were not reviewed in depth. These are issues which are not directly related to the audit objectives or that the auditors did not have the time or resources to expand the audit to pursue. We identified one issue related to the oversight and supervision of the Veterans' Home.

As required by North Dakota Century Code, the Administrative Committee on Veterans' Affairs is responsible for the supervision and government of the Veterans' Home. Our review identified significant deficiencies with how the Administrative Committee operated, supervised, and monitored the Veterans' Home. A number of recommendations are made in this audit report relating to the Administrative Committee improving the supervision and monitoring of the Veterans' Home. Specifically, recommendations are made in the following areas:

- The Administrative Committee should ensure the Commandant is fulfilling the position's responsibilities and duties in an efficient and effective manner;
- The Administrative Committee should exercise more control and direction over the Veterans' Home;
- The Administrative Committee should reduce the Committee membership size and modify the Committee appointment process;
- The Administrative Committee should restructure and redesign the Committee's operations once the membership size and appointments have been changed;
- The Administrative Committee should comply with applicable North Dakota Century Code sections; and
- The Administrative Committee should improve the Basic Care rent schedule.

As required by auditing standards related to performance audits, our office will conduct a follow-up review of the status of the recommendations contained in this performance audit report. If significant changes are not identified with the operations of both the Administrative Committee on Veterans' Affairs and the Veterans' Home during the follow-up review, an additional review could be performed to determine whether a new oversight board or organizational structure should be considered. The review could determine whether the Administrative Committee should have its responsibilities and duties revised, whether the Administrative Committee should be replaced by a different board or committee, whether the Commandant should be held accountable by a different board or state entity, or whether the Veterans' Home should be under the supervision and control of another state entity with the Administrative Committee serving in an advisory capacity.

Cost Comparisons

In our review, we compared the Veterans' Home daily costs per resident with other skilled care facilities, basic care facilities, and other states' veterans' homes. The cost comparisons can be seen in Appendix H. As noted by the information, the Veterans' Home's Skilled Care unit has the highest daily costs of any skilled care facility in the state. In addition, the Veterans' Home's Basic Care unit is also very high compared to other basic care facilities in the state. The Veterans' Home provided the following reasons for having higher costs than other skilled care and basic care facilities in the state:

- A representative of the Veterans' Home stated that other basic care and skilled care facilities only have Medicaid and Medicare rules and regulations to follow while the Veterans' Home has to follow those rules, plus state requirements specific to the Veterans' Home, and federal Department of Veterans' Affairs rules and regulations;
- Representatives of the Veterans' Home noted that the fringe benefits paid to state employees are better than those of other skilled care and basic care facilities;
- Representatives of the Veterans' Home noted that the grounds and buildings at the Veterans' Home are larger than other skilled care and basic care facilities;
- A representative of the Veterans' Home stated that the Veterans' Home has one case manager and one consultant addiction counselor which they believe other skilled care and basic care facilities do not have; and
- Representatives of the Veterans' Home noted that a higher level of care is required by the residents.

In comparison to other states' veterans' home, the Veterans' Home Skilled Care unit daily costs rank 14th out of 40 states (one being the lowest in cost) that have skilled care provided at their veterans' home. It should be noted that while the Veterans' Home is ranked at this level, the Veterans' Home does have higher costs than those of the surrounding states of South Dakota and Montana but is lower than Minnesota. It appears the Veterans' Home may be lower in costs compared to other states due to the fact that other states have newer and more costly facilities as well as providing services to a population that has a higher acuity level (and thus, require more services). For example, Texas (the highest in daily costs) has four relatively new facilities (two began accepting residents in December 2000 and two began accepting residents in March and June 2001) which have Alzheimer's units. California (the second highest in daily costs) has three facilities, two of which are relatively new (one built in 1996 and one was built in 2000). One of California's facilities offer five levels of care to 1,200 residents while the other two care for up to 400 residents in three levels of care.

The Veterans' Home Basic Care unit daily costs rank 8th out of 40 states (one being the lowest in cost) that have basic care provided at their veterans' home. The Veterans' Home does have higher costs than those of the surrounding states of South Dakota and Wyoming but is lower than Minnesota and Montana.

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List of Recommendations

Recommendation 2-1

We recommend the Administrative Committee on Veterans' Affairs ensure the Commandant is fulfilling the position's responsibilities and duties in an efficient and effective manner. The Administrative Committee should, at a minimum:

- a) Establish detailed, measurable goals for the Commandant;
- b) Conduct an annual, detailed, and formal evaluation of the Commandant including a determination of goal attainment;
- c) Hold the Commandant accountable for actions, or lack of actions, taken;
- d) Ensure the Commandant receives appropriate training in areas requiring improvement;
- e) Track the implementation of recommendations contained in the performance audit report; and
- f) Determine whether recommendations are appropriately implemented.

If the Administrative Committee does not identify significant improvement in the Commandant's management and appropriate implementation of recommendations in this audit report, the Administrative Committee must consider appointing a new Commandant.

Recommendation 2-2

We recommend the Administrative Committee on Veterans' Affairs exercise more control and direction over the Veterans' Home. The Administrative Committee should, at a minimum:

- a) Become involved in the strategic planning and monitoring process;
- b) Become involved in the budgeting process and request explanations/justification regarding changes in the budget;
- c) Monitor the budget and expenditures and request explanations regarding variances;
- d) Require periodic reports or presentations from division supervisors; and
- e) Monitor resident and employee satisfaction through a formal survey process.

Recommendation 2-3

We recommend the Administrative Committee on Veterans' Affairs take appropriate action to reduce the Committee membership size and modify the Committee appointment process. There are several options the Administrative Committee could pursue including:

- a) Reducing the size of the Administrative Committee to seven members, five of which are appointed by the Governor from nominations from each of the five major veteran organizations and two of which are appointed by the Governor at large;
- b) Ensuring that at least two members have appropriate knowledge and experience in the long term care field; and
- c) Taking the appropriate action to amend or modify North Dakota Century Code to allow these changes to occur.

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List of Recommendations

- Recommendation 2-4** We recommend the Administrative Committee on Veterans' Affairs take appropriate action to restructure and redesign the Committee's operations once the membership size and appointments have been changed. The Administrative Committee should:
- Eliminate the subcommittee structure;
 - Determine whether monthly meetings for the Veterans' Home and quarterly meetings for the Department of Veterans' Affairs are sufficient to fulfill the Committee's responsibilities;
 - Utilize technology to enhance the efficiency of meetings; and
 - Take the appropriate action to amend or modify North Dakota Century Code to allow these changes to occur.
- Recommendation 2-5** We recommend the Administrative Committee on Veterans' Affairs comply with North Dakota Century Code Section 37-18.1-03, Subsections 2 and 5, and:
- Detail the specific powers and duties relating to the supervision, government, and implementation of programs or services provided by the Veterans' Home; and
 - Assure compliance with applicable federal and state laws in the administration of the Veterans' Home.
- Recommendation 2-6** We recommend the Veterans' Home develop a strategic plan with significant input from its stakeholders that establishes both a short-range and a long-range plan. The strategic plan should provide for measuring the productivity and operations of the Veterans' Home and should be periodically reviewed and revised.
- Recommendation 2-7** We recommend the Veterans' Home restructure the accounting, budgeting, and financial areas to make these functions operate more efficiently and effectively. In the restructuring process, the Veterans' Home should consider:
- Having one individual in this area responsible for all accounting, budgeting, and financial information and reporting;
 - Having this individual assigned supervisory responsibilities over all accounting, budgeting, and financial areas;
 - Combining responsibilities in the accounting, budgeting, and financial areas; and
 - Seeking outside assistance from knowledgeable individuals in the accounting, budgeting, and financial areas to aid them in the restructuring process.
- Recommendation 2-8** We recommend the Veterans' Home comply with North Dakota Administrative Code Section 4-07-05-03 and:
- Ensure individuals employed, promoted, reinstated, or transferred into or to a classified position possess qualifications that at least meet the minimum qualifications of that position; and
 - Take the necessary action to ensure that classified positions are filled by individuals who at least meet the minimum qualifications of the position.

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List of Recommendations

Recommendation 2-9	<p>We recommend the Veterans' Home improve the processes for preparing and monitoring the budget. At a minimum, the Veterans' Home should:</p> <ul style="list-style-type: none">a) Include division involvement throughout the entire budget process; andb) Provide the necessary information to all divisions to allow the budget to be effectively monitored at the division level.
Recommendation 2-10	<p>We recommend the Veterans' Home comply with legislative intent identified during the budget process. At a minimum, the Veterans' Home should:</p> <ul style="list-style-type: none">a) Monitor the number of paid hours for positions that are less than 100% full-time equivalents; andb) Comply with legislative intent when additional full-time equivalents are authorized.
Recommendation 2-11	<p>Pathway Health Services recommends the Veterans' Home improve management of expenditures and develop tools to be used for daily cost tracking functions which will provide division managers with per patient day targets and serve as a vehicle to track and compare actual spending.</p>
Recommendation 2-12	<p>We recommend the Veterans' Home either comply with North Dakota Century Code Section 37-15-10.1 and use the established priority listing or take the appropriate action to modify this Century Code section.</p>
Recommendation 2-13	<p>We recommend the Veterans' Home comply with North Dakota Administrative Code Section 86-03-01-06 and require that former residents pay all money owed to the Veterans' Home prior to readmission or take the appropriate action to modify this Administrative Code section.</p>
Recommendation 2-14	<p>We recommend the Veterans' Home take the appropriate steps to review all North Dakota Administrative Code sections pertaining to the Veterans' Home and initiate action to update the Administrative Code. If sections are not modified, the Veterans' Home must establish controls to ensure compliance with current sections.</p>
Recommendation 2-15	<p>We recommend the Veterans' Home comply with state laws, rules, and policies relating to the hiring of employees.</p>
Recommendation 2-16	<p>We recommend the Veterans' Home comply with North Dakota Administrative Code and Code of Federal Regulations relating to performance reviews of employees.</p>

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List of Recommendations

- Recommendation 2-17** We recommend the personnel officer of the Veterans' Home have sufficient time and resources to become actively involved in the hiring and performance review processes to enhance consistency and ensure compliance with laws, rules, and policies.
- Recommendation 3-1** We recommend the Veterans' Home comply with North Dakota Century Code Section 37-15-14 and:
- a) Spend all non-general fund money prior to spending general funds; and
 - b) Account for all money received in the Veterans' Home operating fund except as provided in NDCC Section 37-15-21.
- Recommendation 3-2** We recommend the Veterans' Home discuss with the Department of Human Services the process involved in having the Veterans' Home as a separate class of nursing facility not subject to the upper limits established for the Medicaid case-mix payment system, and present the process, advantages, and disadvantages of such a change to the Legislative Assembly for their consideration.
- Recommendation 3-3** We recommend the Administrative Committee on Veterans' Affairs improve the Basic Care rent schedule by:
- a) Complying with North Dakota Century Code Section 37-15-14.1 and ensure rent contribution rates are established using a formula that ensures equity and dignity; and
 - b) Significantly raising the rent contribution rates to bring them closer to the limit of 49% of cost to collect a larger percentage of the cost of care for a Basic Care resident.
- Recommendation 3-4** We recommend the Veterans' Home implement controls related to resident financial affidavits. At a minimum, the Veterans' Home should:
- a) Ensure compliance with North Dakota Administrative Code by conducting annual reviews of resident finances;
 - b) Periodically verify the information provided on the financial affidavits; and
 - c) Properly document all changes made to affidavits.
- Recommendation 3-5** We recommend the Veterans' Home charge residents rent for all days the residents are on a pass or non-medical leave.
- Recommendation 3-6** We recommend the Veterans' Home establish additional controls pertaining to the collection of rents. This should include:
- a) Ensuring compliance with North Dakota Administrative Code Section 86-03-02-03 by having residents make payment within 30 days following the month in which they were incurred or take the appropriate action to modify this Administrative Code section; and
 - b) Pursuing past due accounts in a timely manner.

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- Recommendation 3-7** We recommend the Veterans' Home improve the accounting of resident funds deposited with the Veterans' Home by:
- a) Complying with the Code of Federal Regulations and not commingling resident funds with other non-resident funds by establishing a separate checking account only for resident funds; and
 - b) Paying residents all the interest that is due to them by allocating interest on a pro-rata basis.
- Recommendation 3-8** We recommend the Veterans' Home comply with North Dakota Century Code Section 37-15-21 and ensure that gifts, donations, and bequests are used for the specific purposes for which they were given or donated.
- Recommendation 3-9** We recommend the Veterans' Home withhold appropriate payroll taxes for payments to employees and immediately notify the applicable federal and state entities of the lack of withholding appropriate payroll taxes from previous bonus payments to employees.
- Recommendation 3-10** We recommend the Veterans' Home comply with constitutional provisions and ensure that appropriated funds are used for expenditures that directly relate to the purpose of the Veterans' Home and are within the Veterans' Home statutory responsibilities.
- Recommendation 3-11** We recommend the Veterans' Home comply with legislative intent and state law requirements related to public improvement projects by:
- a) Ensuring projects do not exceed legislatively approved amounts;
 - b) Complying with NDCC Section 48-02-20 by not significantly changing or expanding a building construction project beyond what has been approved by the Legislative Assembly unless proper approval is obtained;
 - c) Complying with NDCC Section 48-01.1-03 by following bidding requirements for projects estimated to cost over \$100,000; and
 - d) Complying with NDCC Section 48-01.1-04 by procuring plans, drawings, and specifications from a licensed architect or a registered professional engineer for projects estimated to cost over \$100,000.
- Recommendation 3-12** We recommend the Veterans' Home assign and use project numbers on the Statewide Accounting and Management Information System.
- Recommendation 3-13** We recommend the Veterans' Home establish controls to ensure compliance with all procurement laws, policies, and procedures. At a minimum, the Veterans' Home should:
- a) Use the State Procurement Office for bidding when required;
 - b) Use Term Contracts established by the State Procurement Office;
 - c) Properly document all bids/quotes for related party transactions; and
 - d) Use purchase orders when required.

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List of Recommendations

Recommendation 3-14	<p>We recommend the Veterans' Home establish controls for entering into contracts and for contract management which should include, at a minimum:</p> <ul style="list-style-type: none">a) Ensuring contracts include the necessary elements of a contract such as non-appropriation language, length of contracts, and payment information; andb) Monitoring contracts to ensure services are provided and paid for in conjunction with stated contract terms.
Recommendation 3-15	<p>We recommend the Veterans' Home use an automated or electronic process for skilled care census, billing, and receipting purposes.</p>
Recommendation 3-16	<p>We recommend the Veterans' Home comply with North Dakota Century Code Section 54-06-09 by reimbursing employees for mileage at a rate that does not exceed the established maximum amount.</p>
Recommendation 3-17	<p>We recommend the Veterans' Home develop formal policies and procedures for accounting, budgeting, and financial management functions to provide clear guidance and ensure consistent application.</p>
Recommendation 3-18	<p>We recommend the Veterans' Home take the appropriate action to close the "petty cash" checking account once it has been properly reconciled.</p>
Recommendation 4-1	<p>Pathway Health Services recommends that Basic Care residents receiving skilled level services need to establish a relationship with a provider that can meet those needs and supplement the Basic Care services or consider discharge and relocation to a skilled care facility. The four residents identified should begin this process now.</p>
Recommendation 4-2	<p>Pathway Health Services recommends the Veterans' Home establish a formal policy and procedure for admission, discharge, and continuous stay criteria for the evaluation of appropriateness of residents moving into the Basic Care Facility.</p>
Recommendation 4-3	<p>Pathway Health Services recommends the Veterans' Home assess the evacuation capability of the residents. At the time of admission and on a regular basis, assessments should be completed, with a pre-determined protocol for when a resident no longer meets the established criteria. Residents' ability to evacuate can be tested during routine fire drills as well as the annual full facility evacuation. Utilizing and creating a formal documentation system following evaluation from therapy staff after significant changes and hospital returns would satisfy this recommendation.</p>
Recommendation 4-4	<p>Pathway Health Services recommends the Veterans' Home utilize the Quality Assurance Committee to conduct routine self-assessments of facility programs and systems for identification of potential improvement projects. A focus on safety system audits should be included.</p>

Appendix A

List of Recommendations

- Recommendation 4-5** Pathway Health Services recommends the Veterans' Home customize resident, family, and employee satisfaction surveys to identify and measure areas of needed improvement related to resident services and care.
- Recommendation 4-6** Pathway Health Services recommends the Veterans' Home:
- a) Evaluate the need for the bath aide position and assign resident baths to the CNAs;
 - b) Reevaluate the need for a Day Charge RN as the Unit Manager should be able to manage the medical care of 38 residents and supervise the CNAs on the day shift;
 - c) Reevaluate the need for the evening LPN position as adding a registered medication assistant to complete the afternoon and evening medication passes (for those residents unable to administer their own medications) to the residents would give the evening RN time to manage the medical care and staff; and
 - d) If medication passes are heavy at any given time during the day, look at staggering medication pass times to accommodate this.
- Recommendation 4-7** Pathway Health Services recommends the Veterans' Home review the staffing levels of the Basic Care unit and:
- a) Implement one shift of Registered Nursing in a 24-hour period to provide those assessment and management pieces that are required for licensure, with Licensed Practical Nursing staff scheduled on each shift and Nursing Assistants initiated to meet the direct needs of the residents;
 - b) After the one shift of Registered Nursing is implemented, modify the number of hours provided by each nursing classification to recognize the level of service provided; and
 - c) Once the number of hours is modified, assign job duties to better meet the resident needs by utilizing the skills of the Registered Nurse, Licensed Practical Nurse, and Nursing Assistant.
- Recommendation 4-8** Pathway Health Services recommends the Veterans' Home do an in depth review of the nursing division and structure and determine where, in hours or structure, staffing or job duties could be modified to find possible care savings.
- Recommendation 4-9** Pathway Health Services recommends the Veterans' Home restructure the Nursing Division so that the nursing staff in the Skilled Care unit report directly to the Skilled Care Unit Manager and the Basic Care staff report to the Basic Care Unit Manager. The Registered Nurses/Licensed Practical Nurses on the evening and night shifts would be responsible for the supervision on their shifts and provide immediate feedback to staff and provide information to the Unit Managers as needed.

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List of Recommendations

Recommendation 4-10

Pathway Health Services recommends the Veterans' Home improve employee satisfaction by:

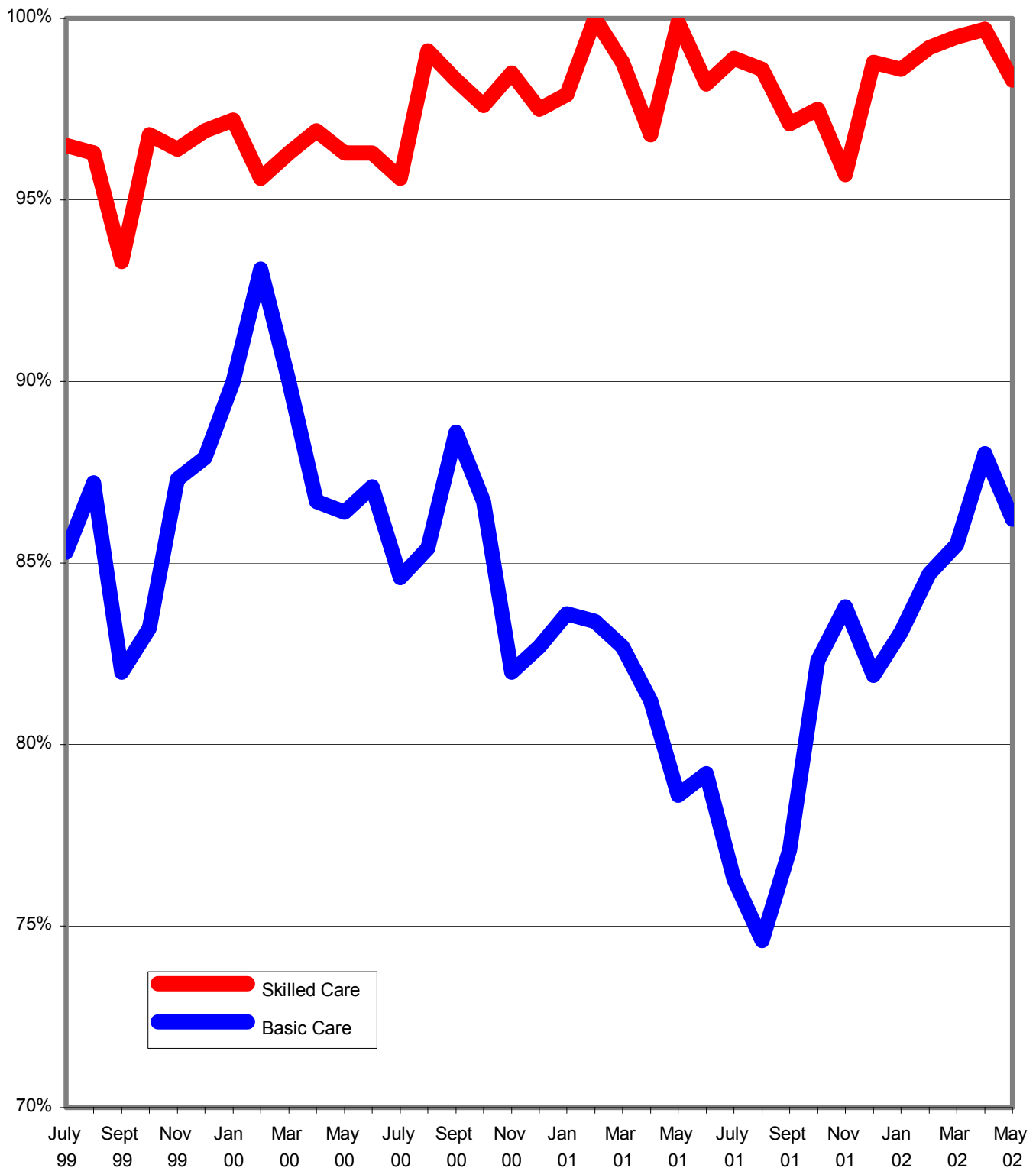
- a) Creating a clear, positive direction for the facility that staff can understand and support;
- b) Implementing a strong program of supervisory enhancement for all supervisors at all levels which should include effective monitoring and measuring, training, coaching, and supervisory role confirmation; and
- c) Developing survey questionnaires to focus on targeted quality areas.

Recommendation 4-11

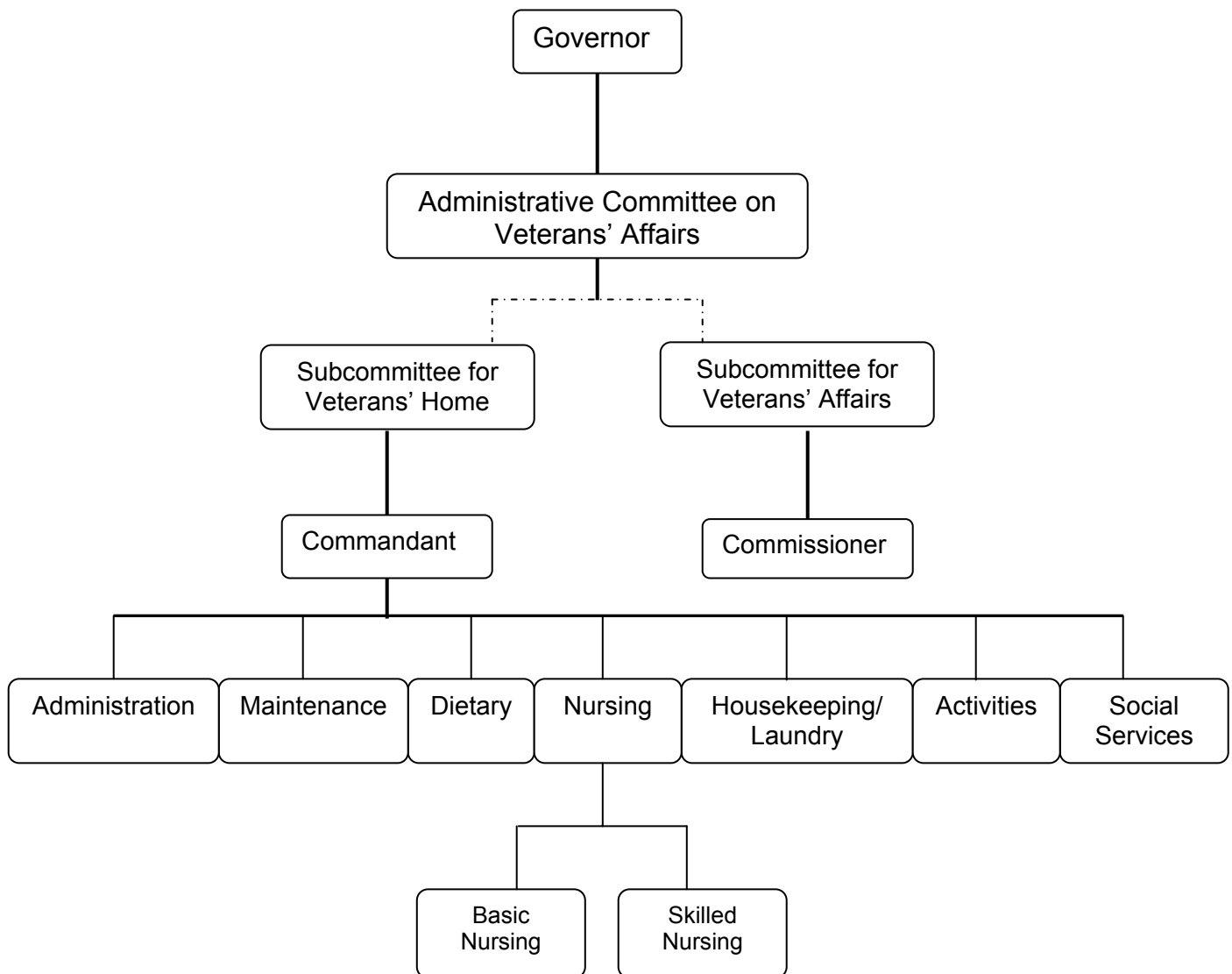
Pathway Health Services recommends the Veterans' Home administer a revised customer satisfaction survey on an annual basis that can produce data to be used as specific performance measures for each division and manager. The results of the survey should be used to regularly meet with each manager and work on the issues identified in the survey.

Basic Care Unit and Skilled Care Unit Occupancy Rates

The graph below identifies the occupancy rates for the Basic Care and Skilled Care units of the Veterans' Home from July 1999 through May 2002. The monthly occupancy rates used in the graph were computed from census data that the Veterans' Home reported to the Provider Audit Division of the Department of Human Services on Schedule B-1/Census Data.



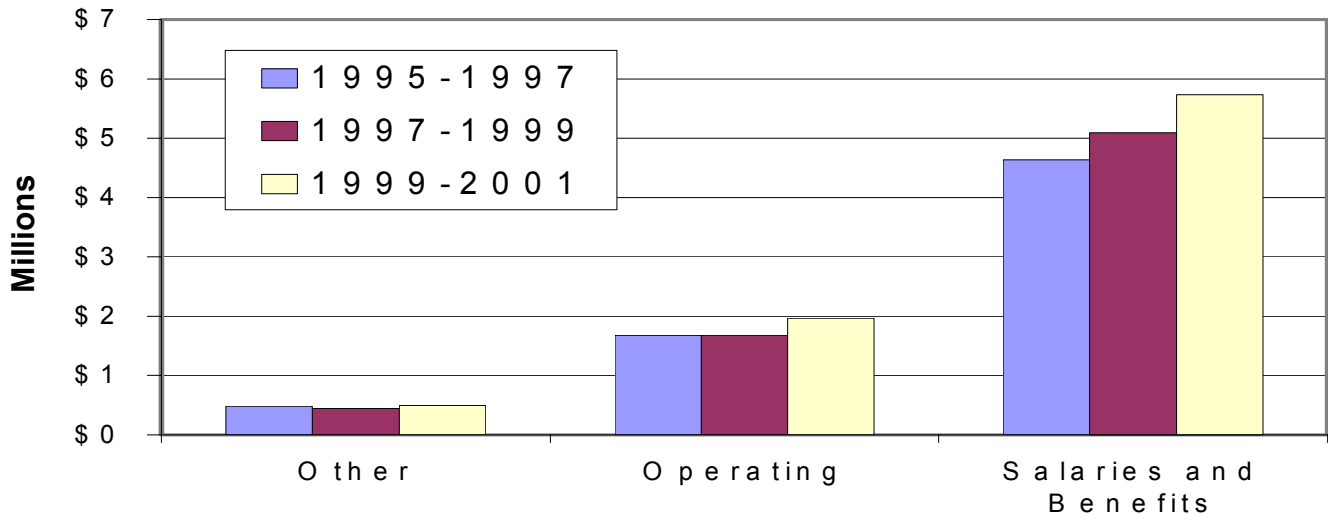
Veterans' Home Organizational Chart



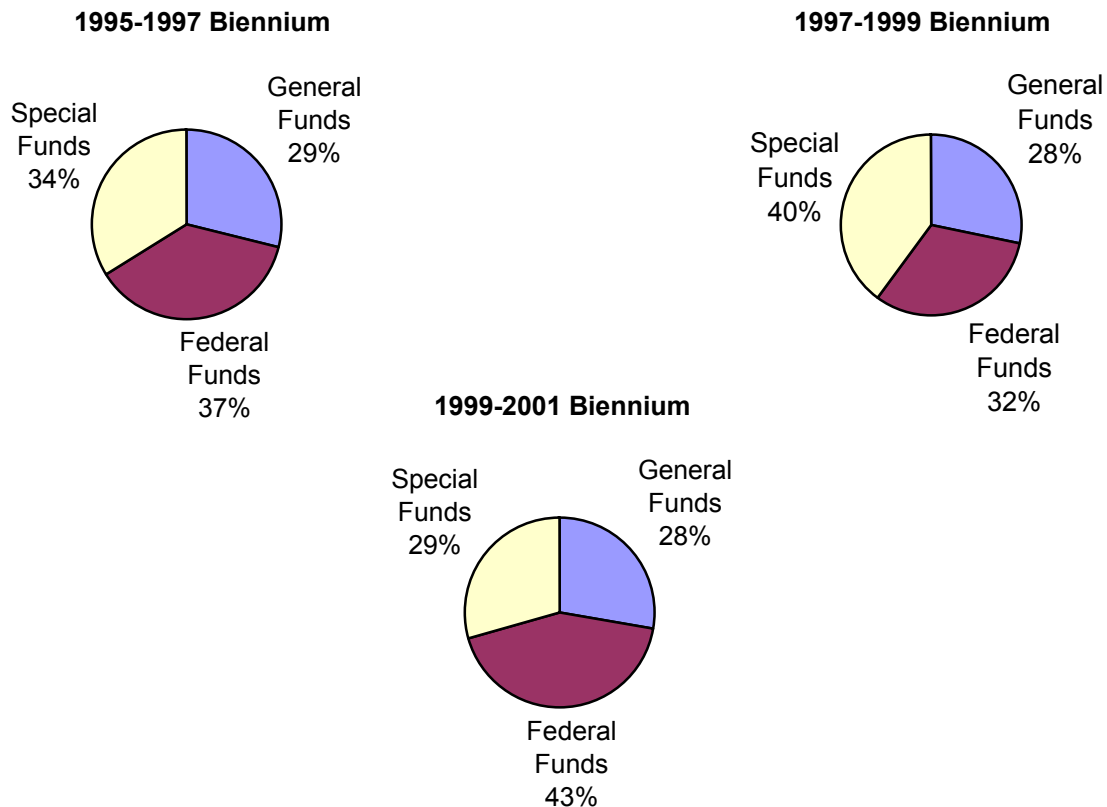
Veterans' Home Expenditures

The following graphs illustrate the expenditure information for the Veterans' Home over the three previous bienniums. The expenditure information was obtained from the Statewide Accounting and Management Information System. Expenditures included in the Other category are Equipment, Capital Improvements, and Capital Construction Carryover.

Expenditures by Line Item



Expenditures by Source





Wayne Stenehjem
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**LETTER OPINION
2002-L-29**

May 10, 2002

Honorable Robert R. Peterson
State Auditor
600 East Boulevard Avenue
Bismarck, ND 58505

Dear Mr. Peterson:

Thank you for your letter asking several questions about the relationship between statutes relating to funds under the control of the Veterans' Home and budgeting and fiscal policies of the Office of Management and Budget (OMB).

Section 37-15-14, N.D.C.C., provides as follows:

A special fund, to be known as the veterans' home operating fund, must be maintained in the state treasury. Moneys arising from the interest received on money derived from the sale of lands appropriated for the support of the home and from the rental of such lands, moneys received from the United States for the support and maintenance of the home, and all other moneys, income, and collections of public funds arising from any other source or endeavor of the home, except as provided for in section 37-15-21, must be placed in the veterans' home operating fund for the use and maintenance of the veterans' home. Moneys derived from the general fund appropriation made by the legislative assembly must be transferred periodically to the veterans' home operating fund upon order of the director of the office of management and budget whenever the operating fund's balance requires supplementation.

The OMB is vested with control and supervision of the fiscal administration of the executive branch of state government. It has the powers necessary to supervise and administer the fiscal transactions of the state departments, agencies, boards, and commissions. N.D.C.C. §§ 54-44-01, 54-44-02. Within the OMB, the office of the budget is established for the purpose of promoting economy and efficiency in the fiscal management of state government. N.D.C.C. § 54-44.1-02.

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Agencies are required to submit budget estimates to the office of the budget which prepares budget data based thereon. N.D.C.C. §§ 54-44.1-04, 54-44.1-06. Following the enactment of appropriations measures, the office of the budget exercises continual control over the execution of the budget affecting the departments and agencies of state government. N.D.C.C. § 54-44.1-12.

Concerning the relationship between OMB fiscal policies and statutes relating to the board of higher education, this office opined:

Thus, . . . OMB policies which purport to direct or control the manner in which public monies are to be administered need not be followed by the Board when there is an express statutory exception.

Letter from Attorney General Nicholas Spaeth to Edwin J. Nagel, Jr. (Apr. 7, 1992).

Based on the above discussion of applicable law, my opinion with respect to your questions is as stated below. Federal funds received by the Veterans' Home must be deposited in the Veterans' Home operating fund pursuant to N.D.C.C. § 37-15-14, as well as N.D.C.C. §§ 37-15-13 and 37-15-21. Any OMB budgeting policies in conflict with these sections do not override the specific statutory enactments.

The last sentence of N.D.C.C. § 37-15-14 generally requires non-general fund money to be spent first and to be supplemented by general fund appropriations when the director of OMB determines supplementation is required. This is, as stated, a general requirement because it is conceivable that federal funds or other forms of revenue to the Veterans' Home, such as gifts, grants, or donations, may have limitations applicable to them concerning the manner and the purposes for which they may be spent. See N.D.C.C. § 37-15-21. Thus, OMB will need to consider those spending limitations in the exercise of its discretion as to when the Veterans' Home operating fund needs to be supplemented.

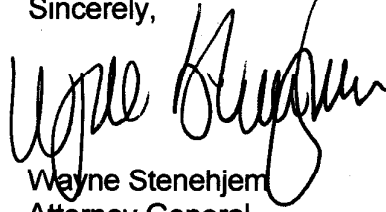
In your request you quote a portion of N.D.C.C. § 37-15-14 regarding moneys received from the United States for the support and maintenance of the home. You ask whether this language or other provision of the Century Code requires the Veterans' Home to spend moneys in what you call "their federal fund (002)" before spending state general funds. Section 37-15-14, N.D.C.C., requires federal funds received for the support and maintenance of the Home to be deposited in the Veterans' Home operating fund. From your description, it appears federal funds received for that purpose may have been diverted to another fund, but the requirement for spending non-general fund money first, as described above, continues to apply.

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If the Legislature identifies a project, position or other purpose for which it intends that state general funds be devoted, then it may provide accordingly through exceptions to the general rule stated in N.D.C.C. § 37-15-14. It may do so either by permanent law in the Century Code or by specific direction contained in appropriations measures concerning the Veterans' Home contained in the session laws. This process creates an exception to the general rule, and is not an uncommon procedure for the Legislature to use.

The procedures required by N.D.C.C. § 37-15-14 may be at variance with the standard budgeting and appropriations processes in place for state government. Depending on the current appropriations for the Veterans' Home, it may be necessary for the agency to seek Emergency Commission action to transfer funds between line items, N.D.C.C. § 54-16-04, and the agency should work with the OMB in that process. Also, to avoid what may be unnecessary steps in its budgeting and expenditure process, the Veterans' Home may wish to review the requirements of N.D.C.C. ch. 37-15 and seek legislation at the next legislative session that brings its process into step with current practices.

Sincerely,



Wayne Stenehjem
Attorney General

rel/pg

cc: Ken Anderson, Commandant, North Dakota Veterans' Home
Rod Backman, Director, Office of Management and Budget

Explanation of Nursing Home Payment Process

A description of the Medicaid payment process for nursing facilities in the state is provided below. This information was obtained from the North Dakota Department of Health's *A Guide to Nursing Facility Charges 2002*.

The 1987 North Dakota Legislature established the framework for a case mix-based payment program and also established rate equalization between Medicaid residents and self-pay residents. This program was implemented January 1, 1990, by the Department of Human Services (DHS) and established 16 rates for each facility based on intensity of service. Effective January 1, 1999, DHS increased the number of rates per facility to 34.

All listed rates reflect the daily charges that are assigned to the case mix classification. These classifications reflect the differing health and service needs of individual residents. Residents who need many services are charged higher rates than residents who require fewer services.

The rate equalization feature of the North Dakota system ensures that residents within a given nursing facility, with similar health conditions and service needs, are charged the same amount regardless of the source of payment.

Rates may differ significantly between facilities, even though largely similar services are provided. Differences in rates reflect the age of the buildings, amount of indebtedness, staffing levels and the prevailing wage and price characteristics in different areas of North Dakota.

North Dakota Case Mix System

The rates for each nursing facility are computed annually by the Department of Human Services and are based on information obtained from the facility's cost reports. The determination of rates is the sum of four components: property, indirect care, direct care and other direct care. With the exception of the property rate, a daily limit rate has been established for each category as follows (effective January 1, 2002): indirect care, \$32.93; direct care, \$78.99; other direct care, \$13.72. These limit rates are indexed annually using the same indexing specified in statute for computing actual facility rates.

Property Rate includes depreciation, interest expense, property taxes, lease and rental costs, start-up costs, and reasonable legal expenses. This rate is established on the basis of "allowable costs," with no limitations applied.

Indirect Care Rate includes costs associated with administration, plant operation, housekeeping, medical records, chaplain, pharmacy services and dietary salaries. The established indirect care rate is the lesser of the actual rate or the limit rate. In addition, as an incentive for cost containment, if a facility's indirect care rate is less than the limit rate, 70 percent of the difference, up to a limit of \$2.60, is added to the indirect care rate.

Direct Care Rate is based on costs associated with nursing and therapy services (compensation, supplies, equipment and training). A rate weight of one (or the facility's base rate) is calculated based on the lesser of the actual rate or the limit rate. Case mix weights are then applied to the base rate according to the resident classification system. An operating margin is then added to arrive at the direct care rate for each resident. The operating margin is 3 percent of the lesser of the actual direct care rate or the direct care limit rate for the preceding year.

Other Direct Care Rate is based on costs for food, dietary supplements, laundry, social service and activities. The facility rate for other direct care is the lesser of the actual other direct care rate or the limit

Appendix F

Explanation of Nursing Home Payment Process

rate. An operating margin consisting of 3 percent of the lesser of the actual other direct care rate or the other direct care limit rate for the preceding year is added to arrive at the facility's other direct care rate.

The case-mix payment system is a means of paying for resident care based on documented evidence of the intensity of care and services provided to the resident. A resident is reviewed by the facility within 14 days of admission to the nursing facility. The resident's classification is based upon information contained in a form called the Minimum Data Set (MDS). An interdisciplinary team at the facility completes the MDS to determine the care and service required by the resident. Information from the resident's medical record is used to complete the MDS. The completed MDS is sent to the North Dakota Department of Human Services, where a classification is assigned based on the needs of the resident and the services provided as identified in the MDS. Resident classifications are divided into seven major clinical groups. Each clinical group is divided into subgroups based on the resident's activities of daily living (ADL) score, the need for nursing rehabilitation, and presenting signs of depression.

Projected Savings if Alternative to Medicaid is Implemented

As described in Chapter 3 of this report, we identified an alternative to the Medicaid rate structure that could result in a net general fund savings of over \$550,000 for future bienniums. In this alternative, the Veterans' Home would not be subject to the upper limits established by the Department of Human Services (DHS). The table below identifies the computation used in determining the savings under this alternative. If the alternative would have been implemented for the biennium ending June 30, 2001, we determined the Veterans' Home could have had additional revenue of approximately \$650,000 (thus reducing the amount of general funds required by the same amount) and DHS would have needed to pay approximately \$100,000 of general funds for the state's match of the additional Medicaid payments (net effect of over \$550,000 general fund savings for this biennium). While we determined general fund savings of \$550,000 for this biennium, discussions held with a representative of DHS noted that due to the historical increases in costs with nursing facilities and the fact that the upper limits increase at a lower rate than inflation and costs, it is expected that the net effect would be greater than \$550,000 in future bienniums.

	Fiscal Year 2000	Fiscal Year 2001
Costs that were not paid through the Medicaid program as the Veterans' Home was over the upper limit in the Other Direct and Indirect cost categories ¹	\$141,179	\$159,044
Costs that were not paid through the Medicaid program as the Veterans' Home was over the upper limit in the Direct cost category ²	\$35,404	NA
Additional special funds generated through an increase in private pay attributed to the Other Direct and Indirect cost categories ³	\$150,980	\$136,527
Additional special funds generated through an increase in private pay attributed to the Direct cost categories ⁴	\$34,450	NA
Amount of additional other funds that would have been available to the Veterans' Home under the alternative	\$362,013	\$295,571
State's match of additional costs to be paid through the Medicaid program (30% would be paid by DHS) ⁵	(\$52,975)	(\$47,713)
Total additional other funds (net to the state) generated through the alternative	\$309,038	\$247,858

¹ These amounts are determined by taking the difference in the Veterans' Home actual rate and the upper limit established by DHS for the Other Direct and Indirect cost categories (difference of \$22.90 in FY 2000 and \$22.63 in FY 2001) and multiplying the differences times the number of Medicaid days of care provided.

² This amount is determined by taking the difference in the Veterans' Home actual rate and the upper limit established by DHS for the Direct cost category (difference of \$5.78 in FY 2000 and the Veterans' Home was under the upper limit in FY 2001) and multiplying the difference times the number of days of Medicaid care provided by classification (the days of care by classification must be used as the Direct cost category uses a multiplier, or case mix weight, for each classification of care; no multiplier exists for the Other Direct and Indirect cost categories).

³ These amounts are determined by taking the difference in the Veterans' Home actual rate and the upper limit established by DHS for the Other Direct and Indirect cost categories and multiplying the differences times the number of private pay days of care provided.

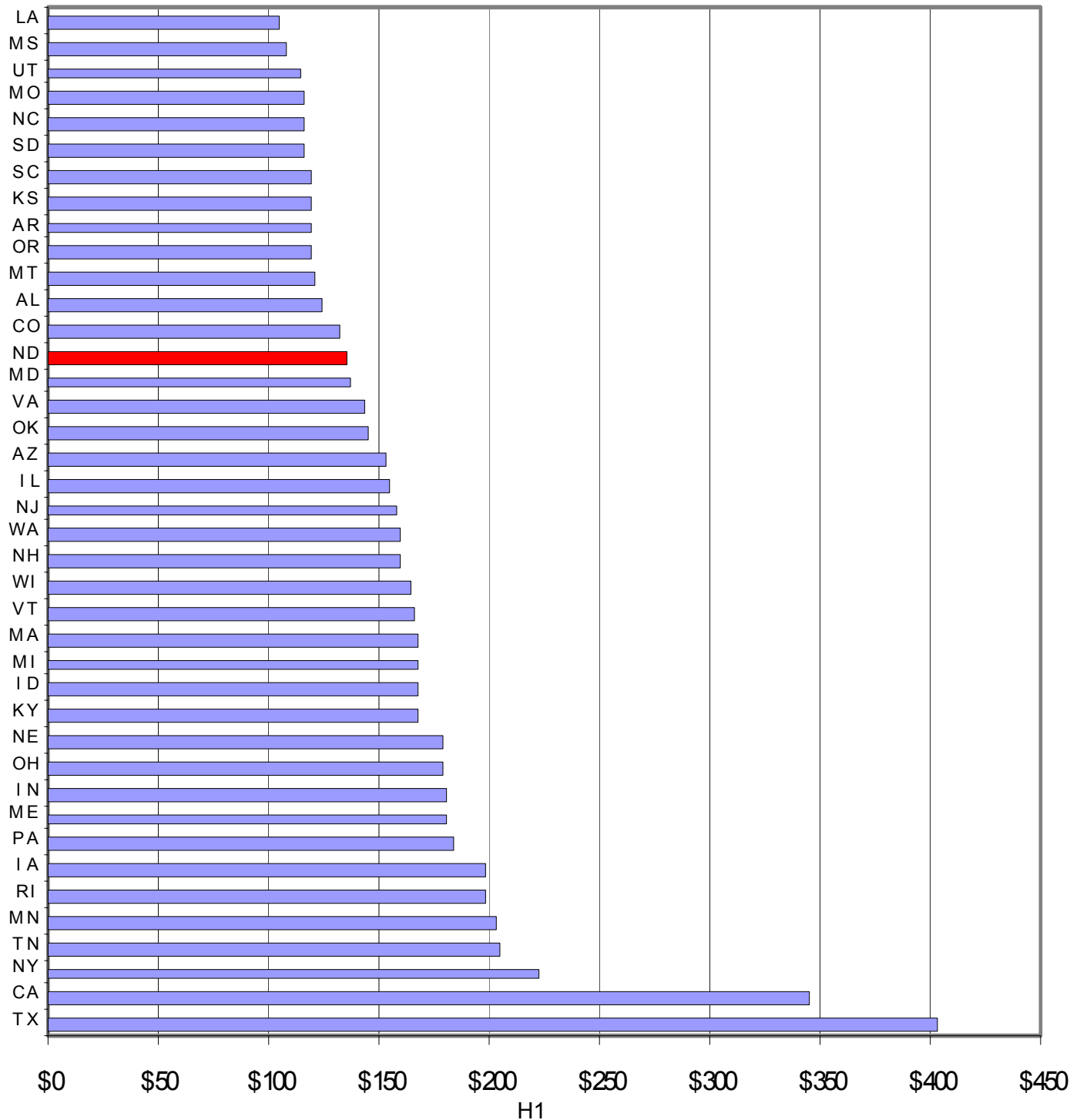
⁴ This amount is determined by taking the difference in the Veterans' Home actual rate and the upper limit established by DHS for the Direct cost category and multiplying the difference times the number of days of private pay care provided by classification (the days of care by classification must be used as the Direct cost category uses a multiplier, or case mix weight, for each classification of care; no multiplier exists for the Other Direct and Indirect cost categories).

⁵ These amounts are determined by taking the Medicaid costs identified above times 30% (the state's match). This amount would need to be paid by DHS with general funds.

Comparison of Veterans' Home Costs to Other Facilities

The following graph compares the actual daily cost per resident of the North Dakota Veterans' Home Skilled Care unit with the actual costs of Skilled Care units of other Veterans' Homes in the United States for federal fiscal year 2001. For those states in which there is more than one Veterans' Home with a Skilled Care unit, an average was calculated among all Skilled Care units of Veterans' Homes in that state. The information used in this graph was provided by the federal Department of Veterans Affairs.

Comparison of Skilled Care Units of Veterans' Homes – Daily Cost Per Resident

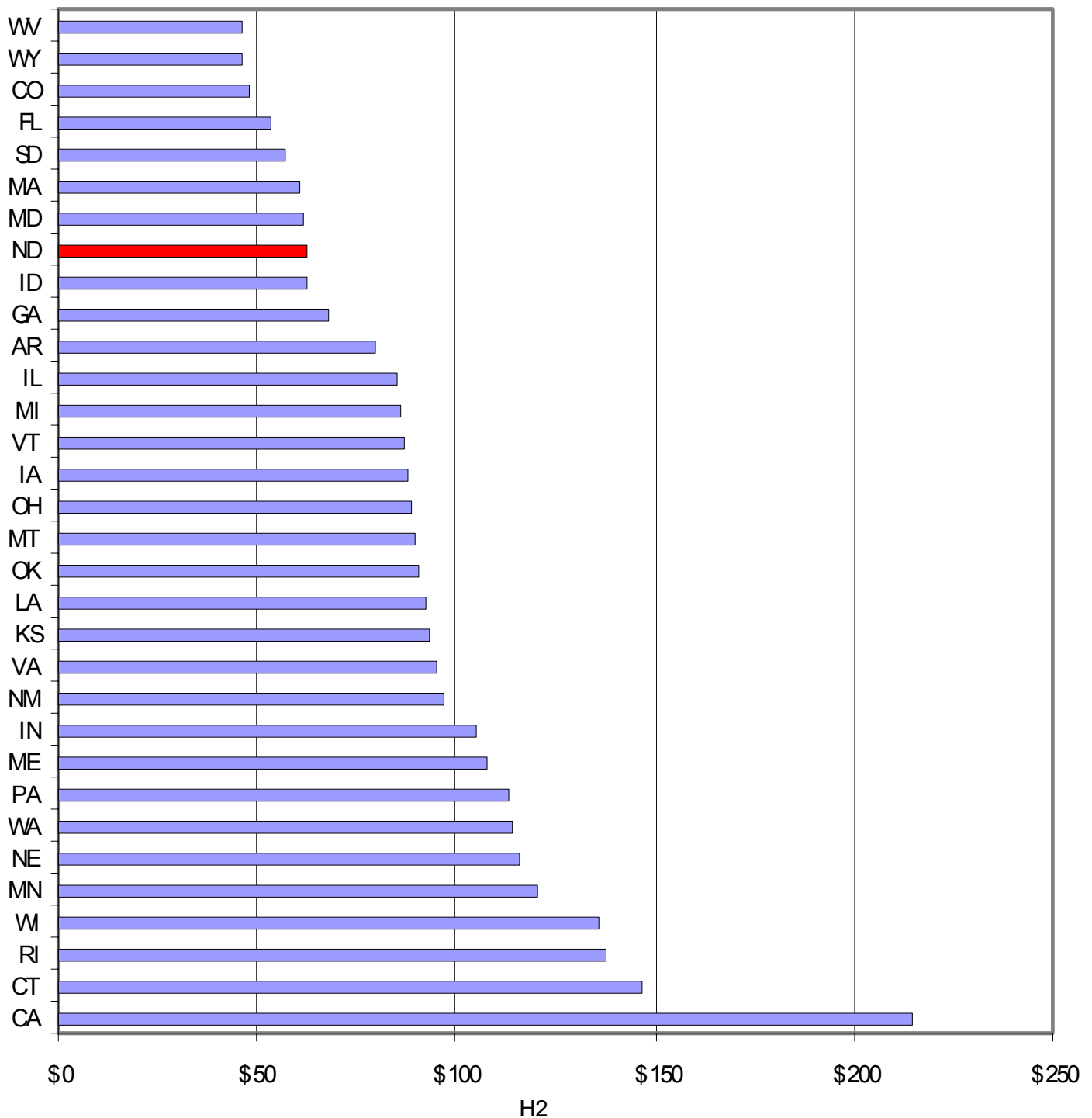


Appendix H

Comparison Veterans' Home Costs to Other Facilities

The following graph compares the actual daily cost per resident of the North Dakota Veterans' Home Basic Care unit with the actual costs of Basic Care units of other Veterans' Homes in the United States for federal fiscal year 2001. For those states in which there is more than one Veterans' Home with a Basic Care unit, an average was calculated among all Basic Care units of Veterans' Homes in that state. The information used in this graph was provided by the federal Department of Veterans Affairs.

Comparison of Basic Care Units of Veterans' Homes – Daily Cost Per Resident

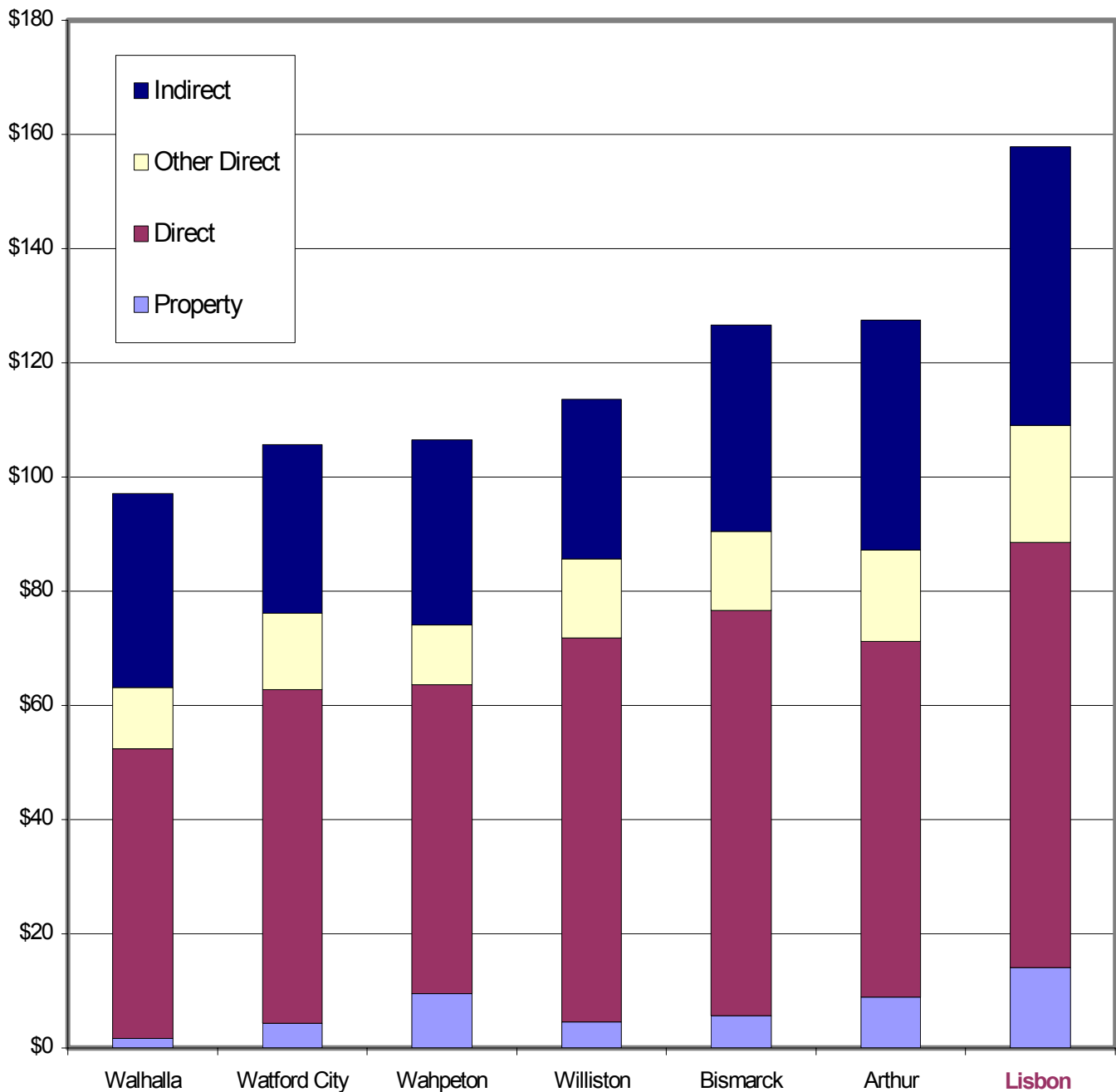


Appendix H

Comparison Veterans' Home Costs to Other Facilities

In the state of North Dakota, there are certain care facilities (including the Veterans' Home) that are comprised of both a skilled care unit and a basic care unit. The following graph compares the actual daily cost per resident of the North Dakota Veterans' Home Skilled Care unit with the actual costs of six Skilled Care units of these types of facilities that were participating in the Medicaid program in North Dakota for state fiscal year 2001. The actual daily cost of Skilled Care units is comprised of property, direct, other direct, and indirect costs. The information identified in this graph was obtained from Medicaid reports provided by the Department of Human Services.

Comparison of Skilled Care Unit of Facilities With Both Skilled and Basic Care –
Daily Cost Per Resident

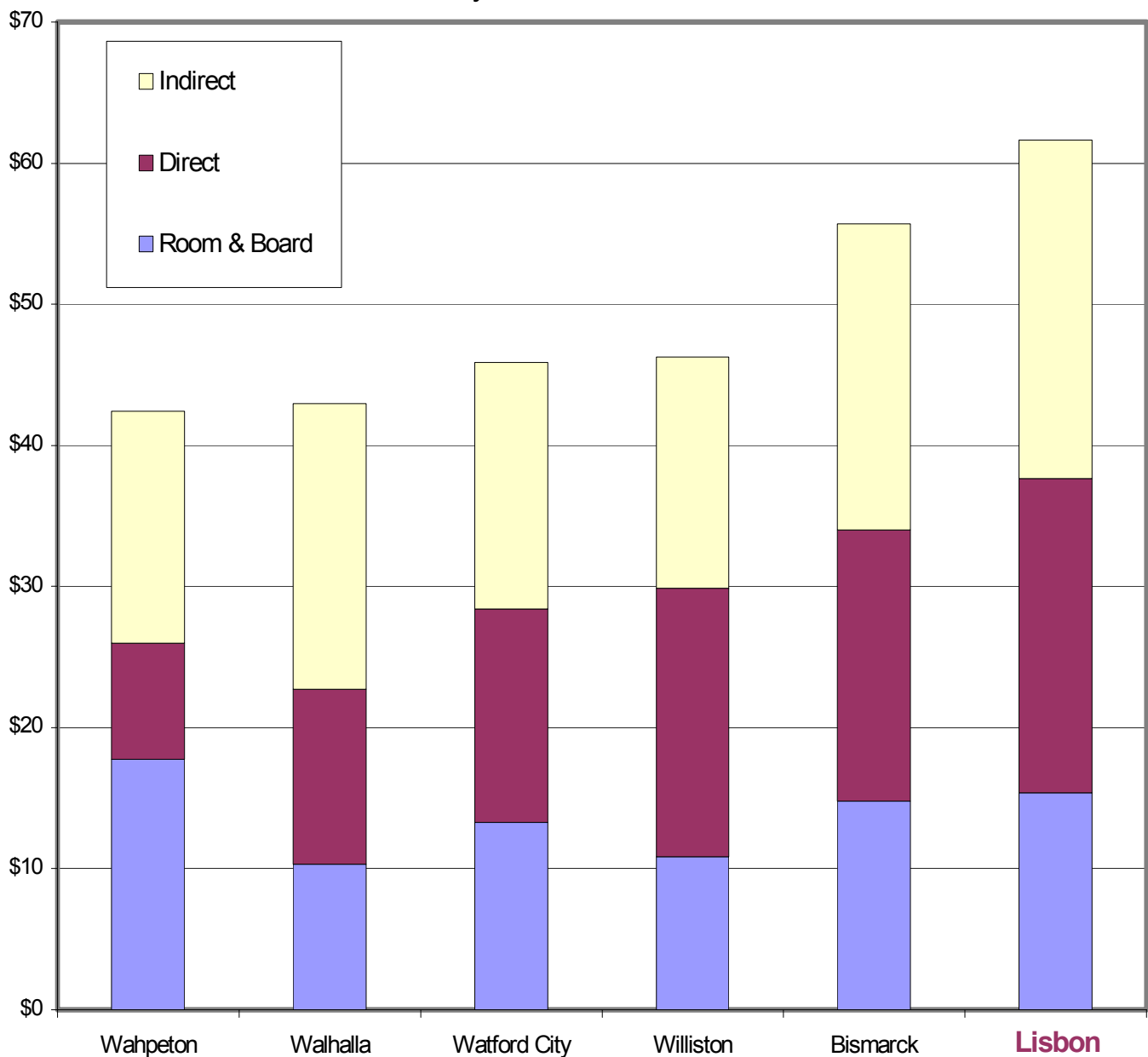


Appendix H

Comparison Veterans' Home Costs to Other Facilities

In the state of North Dakota, there are certain care facilities (including the Veterans' Home) that are comprised of both a skilled care unit and a basic care unit. The following graph compares the actual daily cost per resident of the North Dakota Veterans' Home Basic Care unit with the actual rates of five Basic Care units of these types of facilities that were participating in the Medicaid program in North Dakota (data represents information reported for the facility's fiscal year 2000). The costs for the facility in Arthur are not shown in this graph because its Basic Care unit does not participate in the Medicaid program. The actual daily cost of Basic Care units is comprised of room and board, direct, and indirect costs. The information identified in this graph was obtained from Medicaid reports provided by the Department of Human Services.

Comparison of Basic Care Unit of Facilities With Both Skilled and Basic Care –
Daily Cost Per Resident

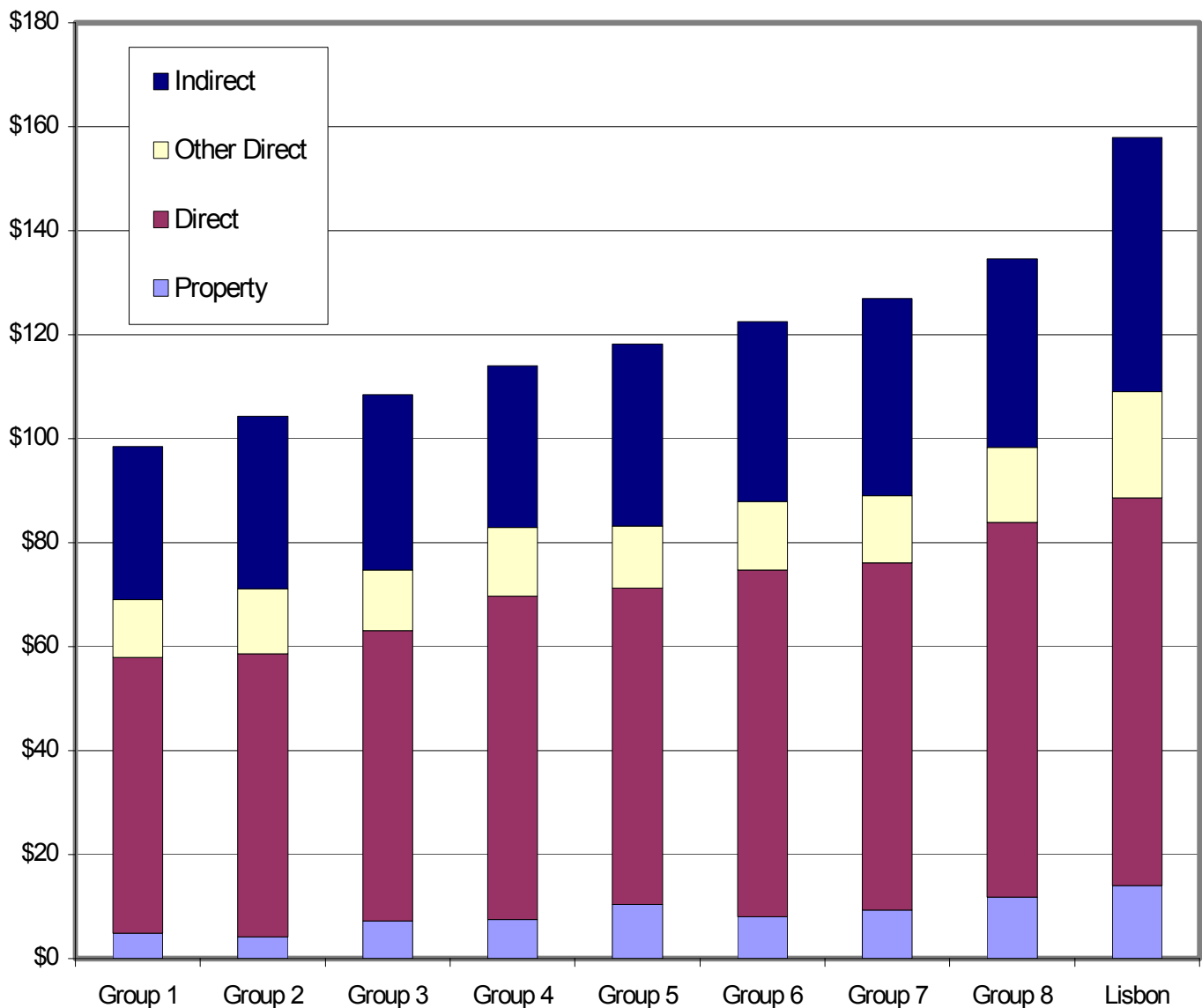


Appendix H

Comparison Veterans' Home Costs to Other Facilities

The following graph compares the actual daily cost per resident of the North Dakota Veterans' Home Skilled Care unit with the actual daily costs of 80 Skilled Care facilities participating in the Medicaid program in North Dakota for state fiscal year 2001. For purposes of presenting a graph on one page, we grouped several facilities together and identified an average daily cost. The North Dakota Veterans' Home had the highest actual daily cost. The other 80 facilities reviewed were ranked from smallest to largest according to the actual daily cost and then broken down into groups of 10 (for example, the ten facilities with the lowest actual daily cost are included in Group 1, the ten facilities with the next highest actual daily cost are included in Group 2, etc.). Groups 1 through 8 in the chart below represent the average actual daily cost of the group. The graph is color coordinated to identify the average of the applicable cost categories. The actual daily cost of Skilled Care facilities is comprised of property, direct, other direct, and indirect costs. The information identified in this graph was obtained from Medicaid reports provided by the Department of Human Services.

Comparison of Skilled Care Facilities – Daily Cost Per Resident

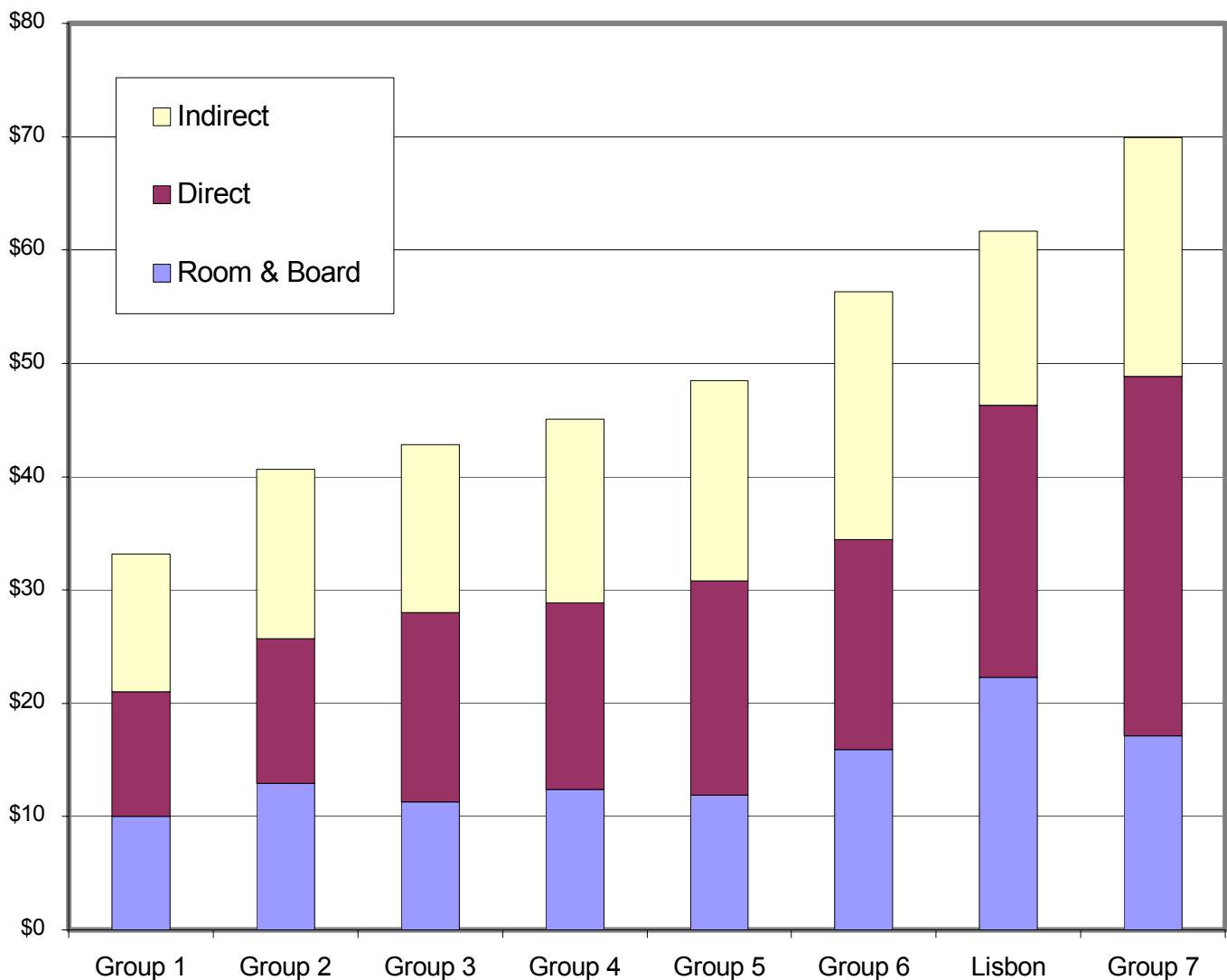


Appendix H

Comparison Veterans' Home Costs to Other Facilities

The following graph compares the actual daily cost per resident of the North Dakota Veterans' Home Basic Care unit with the actual daily costs of 31 Basic Care facilities participating in the Medicaid program in North Dakota (data represents information reported for the facility's fiscal year 2000). For purposes of presenting a graph on one page, we grouped several facilities together and identified an average daily cost. The North Dakota Veterans' Home had the third highest actual daily cost. The 29 facilities that had actual daily costs lower than the Veterans' home were ranked from smallest to largest according to the actual daily cost and then broken down into groups (for example, the five facilities with the lowest actual daily cost are included in Group 1, the five facilities with the next highest actual daily cost are included in Group 2, etc.). Groups 1 through 5 are made up of five facilities. Group 6 is made up of four facilities. The two facilities with higher actual daily costs than the Veterans' Home were grouped together to make up Group 7. These groups represent the average actual daily cost of the group. The graph is color coordinated to identify the average of the applicable cost categories. The actual daily cost of Basic Care facilities is comprised of room & board, direct, and indirect costs. The information identified in this graph was obtained from Medicaid reports provided by the Department of Human Services.

Comparison of Basic Care Facilities – Daily Cost Per Resident



Additional Comments by Administrative Committee

The following paragraph was provided by the Administrative Committee on Veterans' Affairs with their management responses.

"At the time the draft audit report was presented to the Administrative Committee on August 12, 2002, the Committee was apprised of an incident which had occurred between the Commandant and two employees of the Department of Health. The Commandant admitted to the truthfulness of this incident and provided the Committee with his explanation. Due to the seriousness of the incident as reported, the Administrative Committee intends to take this matter up at a future meeting for consideration of possible disciplinary action."